ShareMaestro

Version 3.0

User Manual

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UNLEASH THE POWER OF SHAREMAESTRO

For centuries pundits and analysts have argued about whether share prices are expensive or cheap. Traditional methods of valuing shares, such as dividend yields and price/earnings ratios, do not work because they ignore the current and prospective economic environment. They also do not scientifically value the future corporate growth prospects. ShareMaestro uniquely combines the use of selected corporate data with economic and market data to calculate the current real value of the FTSE 100 or a UK share.

Now, at last, you have at your fingertips a proven, powerful system which measures the true value of UK shares according to the prevailing market factors. You can also measure the impact on UK share values of changes in one or more of these factors.

ShareMaestro has separate modules covering:

- The FTSE 100 share index, which incorporates the top 100 shares comprising nearly 80% of the value of the UK stock market.

- Individual UK shares from the FTSE All-Share index.

ShareMaestro is based on extensive research and has been developed using an exclusive, proprietary system for share valuation.

ShareMaestro is extremely easy to use and this manual guides you every step of the way. The new weekly valuation spreadsheet covers both the FTSE 100 and shares in the FTSE All-Share index. The shares are sorted in order from worst-value to best-value.

This manual also includes exclusive extensively researched strategies to help you maximise your investment returns.

Investing in the stockmarket involves risk. With ShareMaestro you can reduce the risk and stack the odds in your favour.

WHY SHAREMAESTRO WORKS

ShareMaestro works because the market is inefficient. Short-term stock market performance is driven by two emotions – fear and greed. Share prices can be driven by greed to unjustifiable peaks. When the greed evaporates and is replaced by fear, the prices crash. These excess peaks and troughs present investment opportunities for the intelligent, informed investor.

ShareMaestro takes emotion out of the equation by calculating rationally what shares are really worth. Sooner or later share prices, which have been pushed to extremes, will revert to their true values. Psychologically, even when prices reach extremes, human nature invents reasons to justify the peak prices – especially if this confirms the view of the herd. ShareMaestro provides a welcome reality check and highlights areas of great profit potential.

Recent history shows the fear/greed syndrome at work:

- At the end of 1999 the FTSE 100 was driven by greed and by dot.com fever up to nearly 7000. The ShareMaestro valuation was just 3942.

- In the next three and a quarter years the FTSE 100 duly crashed. The index lost more than half of its value to less than 3300. By this stage the ShareMaestro valuation was 4957. Whilst greed had driven the FTSE 100 to unsustainable heights, the subsequent fear, which took over when the bubble burst, drove the index too low.

- Over the next few years the FTSE 100 soared, as predicted by ShareMaestro, and exceeded the trough valuation within 2 years.

Although the City employs many very bright fund managers and analysts, who use complex quantitative techniques, the herd instinct ensures that greed and fear still prevail. Also, as has been well documented in the press and highlighted by the City regulators, many analysts at investment banks have been influenced in their share recommendations by their banks' desire to win or preserve fee revenue from corporate clients. In short their share recommendations have become tainted and unreliable. At least two major investment banks have suffered £ multi-million fines from the regulators for giving buy tips on shares which they knew were already overpriced.

Most fund managers fail to match the performance of their relevant benchmark index, let alone beat it. This explains the increasing popularity of index tracker funds.

ShareMaestro provides an easy, independent and unbiased system for you to value UK shares. You can easily use your own assumptions to produce the valuations.

HOW SHAREMAESTRO WORKS

When you invest in a share (or index) your return on investment will come from two sources:

- The price at which you sell
- The dividends which you receive while holding the share.

ShareMaestro uses a 5-year investment period to allow sufficient time for growth companies to grow and for bubbles to burst. This period has also proved reliable for valuing shares.

Stock markets always look forwards rather than backwards. Shares are valued according to future prospects rather than on the basis of past performance; *"the stock market is a forward-looking discounting mechanism" – Simon Thompson, Trading Secrets, 2009.*

ShareMaestro calculates the current value of a share through applying logical calculations to the fundamental factors which determine that value:

1. The future price of the share (in 5 year's time) is calculated.

2. The accumulated value of reinvested dividends is calculated and added to this price to determine the future value of the investment.

3. The future value of the investment is discounted by the Risk Premium, which compensates for the risk of holding the share instead of a virtually risk-free gilt.

4. The resulting risk-adjusted future value is discounted back to today's value using, as a discount rate, the current return on a 5-year gilt (if held to redemption).

5. The resulting current value of the investment is then compared to the current market price of the share to see if the market price represents good or bad value. The current value is expressed as a percentage of the current market price. 100% represents fair value. Over 100% shows the value is greater than the price and vice-versa. The greater the % valuation above or below 100%, the stronger is the buy or sell signal.

Example:

1. The current price of a share is 120p and its future price (in 5 years time) is projected by the ShareMaestro calculation engine to be 150p.

2. Reinvested dividends are projected to add 30p, making a future investment value of 180p.

3. The Risk Premium for this share is 15% (the minimum) and so the future risk-adjusted investment value is calculated to be 156.5p (100/115*180).

4. The current investment value is calculated by using the current 5-year gilt redemption yield of 3.2% p.a. as a discount factor. This produces a current value of 133.8p. In other words, if you invested 133.8p in a 5 year gilt now and held it to redemption, your return in 5 years time would be 156.5p.

5. The current value of the investment has been calculated as 133.8p, whereas the market price is 120p. Therefore the share valuation is 111.5% of the market price. (133.8/120)*100.

WHEN TO BUY AND SELL

The decision as to when to buy and sell depends to a certain extent on your appetite for risk. The more extreme the ShareMaestro valuations, the more likely it is that the price of share/FTSE 100 will move in the direction of its fair value. However extreme valuations occur less frequently and so will present fewer investment opportunities. Occasionally ShareMaestro identifies a one-way bet. The happened at the height of the dot.com boom at the end of 1999, when the unique ShareMaestro what-if functionality showed that no feasible combination of input values could justify the sky-high FTSE 100 market price.

FTSE 100

The standard strategy is to buy when the valuation reaches 105% and to sell when the valuation falls to 95%. The spread between the buy and sell % valuation ensures that you are not constantly switching between buying and selling the index.

SHARES

Because investment in individual shares carries more risk than in the FTSE 100, you may wish to increase the valuation trigger for purchase to at least 115%, whilst retaining the valuation trigger for sale at 95%. A further worthwhile risk reduction strategy is to put a trailing stop loss on the share as described in the section: Running an Effective Share Portfolio. In this case you would sell at the earlier of the 95% valuation or the stop loss

trigger. Before considering any share investment, you should also validate the valuation as far as possible, as described in the section – Reviewing and fine-tuning share valuations.

THE SHAREMAESTRO INVESTMENT HORIZON

ShareMaestro is a value-investing system. Value-investing systems value shares from fundamental corporate financial data such as current and prospective dividends per share. Valuing- investing systems are the only systems with proven track records of outperforming the market over the long term.

ShareMaestro uses dividends as the basis of its valuations - both current and prospective sustainable dividends. Dividends have been chosen as the key financial measure because:

- Dividends have to be paid out of cash and therefore cannot be manipulated, unlike earnings. Any company which resorts to paying dividends in the form of shares rather than cash is almost certainly in deep financial trouble (for example, this was a key signal that the Royal Bank of Scotland was in serious difficulties)

- Reinvested dividends account for around 90% of the value of long-term equity investment

It is the nature of value-investing systems that it may take some time, possibly as much as two or three years, for the market price to reflect the fundamental value of the share. This is because in the short term market prices are driven by fear and greed. So ShareMaestro is not suitable for day-trading nor for short-term investment strategies aiming at profits within a few months. It is true that the ShareMaestro FTSE100 spread-betting strategy uses spread bet contracts which expire in two or three months but this stellar-return strategy is only suitable for investment horizons of at least three years, since market fear can generate losses on some of the contracts.

That said, providing the incorporated broker forecasts for dividends and earnings prove reasonably accurate, ShareMaestro's most highly valued shares* will often outperform the market within a year.

* those shares with the highest percentage valuation to market price from the weekly ShareMaestro bulk valuation run which have passed the review process.

THE SHAREMAESTRO TRACK RECORD

Updated information on the ShareMaestro track record is available from the website at www.sharemaestro.co.uk. (Use the Track Record menu tab).

FTSE 100

Using the default values of 10% for Risk Premium and 2% p.a. for real dividend growth, together with the 105%/95% buy/sell spread:

- Since 1984, a ShareMaestro buy signal has always delivered a profit upon the subsequent sell signal.
- ShareMaestro has correctly predicted the major impending FTSE 100 crashes since the start of the FTSE 100 in 1984 (see website).
- Since 1984, the cumulative capital gain for periods when ShareMaestro signaled investment in the FTSE 100 has been *94 times greater* than the capital gain for periods when ShareMaestro signaled disinvestment from the FTS100, even though the total period of disinvestment has been slightly longer (11.3 years v 11.1 years) :

Performance of FTSE 100 when buy signals indicated investment in the FTSE 100 (105% to 95% spread)

Buy date	FTSE 100 price	Sell date	FTSE 100 price	Capital gain (%)	Years invested	Cumulative capital growth on £100 base
						100
26/06/1985	1236.5	21/11/1985	1443.1	16.7	0.41	117
28/10/1987	1658.4	11/07/1989	2250.9	35.8	1.7	158
09/04/1990	2227.7	24/12/1993	3412.3	53.2	3.71	243
07/03/1995	2977.0	12/10/1995	3523.8	18.4	0.6	287
11/07/2002	4230.0	23/01/2007	6227.6	47.2	4.54	423
16/08/2007	5859.9	05/10/2007	6595.8	12.6	0.14	476
				Total	11.1	
Cumulative capital gain (476 less 100)						376

Performance of FTSE 100 when sell signals indicated disinvestment from the FTSE 100 (105% to 95% spread)

Sell date	FTSE 100 price	Buy date	FTSE 100 price	Capital gain (loss) (%)	Years not invested	Cumulative capital growth on £100 base
						100
21/11/1985	1443.1	28/10/1987	1658.4	14.9	1.93	115
11/07/1989	2250.9	09/04/1990	2227.7	(-1.0)	0.75	114
24/12/1993	3412.3	07/03/1995	2977.0	(-12.8)	1.2	99
12/10/1995	3523.8	11/07/2002	4230.0	20	6.75	119
23/01/2007	6227.6	16/08/2007	5859.9	(-5.9)	0.56	112
05/10/2007	6595.8	19/11/2007	6120.8	(-7.2)	0.12	104
				Total	11.3	
Cumulative capital gain (104 less 100)						4

At the time of writing, there has been no sell signal subsequent to the buy signal on 19th November 2007. All the other input data are the factual, economic and market data for the valuation dates and can be verified. Even greater returns are possible by adjusting the input value for real dividend growth according to the prospects for corporate profitability over the prospective five-year investment period.

Over 11.3 years, the total cumulative capital gain of the FTSE 100, for the periods when the ShareMaestro signals indicated that you should not be invested in the FTSE 100, was just 4%.

The highest capital gain of the FTSE 100 non-invested periods, + 7.5%, was lower than the lowest capital gain of any of the FTSE 100 invested periods (+8.9%).

FTSE 100 ETF Strategy

From 1984 to the end of 2013, a strategy which switches investment between a FTSE 100 Exchange Traded Fund and cash according to the standard ShareMaestro FTSE 100 buy and sell signals has delivered a **compound annual return of 9.95%**, including reinvested dividends. This return is higher than that achieved by any FTSE 100 tracker fund. £1000 invested at the start of 1984 would have grown to over £17,200 by the end of 2013.

FTSE 100 Spread Bet Strategy

From 1984 to the 20the December 2013, a strategy which buys FTSE 100 spread bets when the standard ShareMaestro FTSE 100 valuation is at least 105% and sells the spread bets when the valuation falls below 105%, has achieved a **compound annual return of 28.8%.** This is considerably more than the best return achieved by any UK equity fund over this period. £1000 invested at the start of 1984 would have grown to over £1,977,000 by 20th December 2013. See the ShareMaestro website for further details of the track record.

SHARES

The valuation of shares by ShareMaestro uses the same methodology as the valuation of the FTSE 100. Our research shows that, when the consensus broker forecasts prove to be accurate, those shares rated as best value by ShareMaestro have, after two years, outperformed the market by more than 20%.

ShareMaestro has been used on several occasions, at the request of the financial press, to provide lists of the 10 best-value and worst-value shares. These portfolios have generally performed in accordance with the valuations. More recently the 10 best-value shares from the 21st December 2012 bulk share valuation run had increased in value by an average of **46.8%** at 20th December 2013.

The 10 worst-value shares had increased in value by an average of just **7.9%** over the same period. Details are given below. Over the same period the FTSE 100 increased by 11.2%, the FTSE All-Share by 13.6% and the FTSE 250 by 26.5%.

10 best value shares

Company	% change in price
NCC Group	23.2
Mecom Group	6.4
Bank of Georgia Holdings	130.6
Volex Group	32.2
Huntsworth	51.9
Hogg Robinson	44.4
Centaur Media	27.7
St Ives	65.2
FirstGroup	-29.3
Greencore	115.4
Average change	**46.8**

10 worst value shares

Company	% change in price
Michael Page	17.7
Aveva	-9.3
Inmarsat	28.4
Unite	43.4
Tullow Oil	-33.1
Fresnillo	-62.8
Shaftesbury	9.2
Derwent	13.3
ARM	37.6
Capital & Counties Properties	34.5
Average change	**7.9**

PROJECTED INVESTMENT RETURNS

In addition to producing current intrinsic valuations for the FTSE 100 and for individual UK shares, the weekly ShareMaestro FTSE All-Share valuation spreadsheet provides information on the projected investment returns which these valuations would produce over the 5-year investment period:

- Projected compound annual % growth in the investment value, including reinvested dividends taxed at the basic rate of tax.

- Projected post-tax annual percent growth in the investment value, taking into account your own personal marginal income tax and capital gains tax rates.

- The option of calculating your personal projected post-tax annual percentage growth in the investment value, incorporating your own choice of personal risk premium. The risk premium is the margin of safety which you wish to incorporate to take account of the uncertainty of the projected returns. This personal risk premium is likely to be higher for individual shares than for the FTSE 100.

Using these projected returns, you can decide whether investment in the FTSE 100 or in a selected share is likely to provide you with a better annual post-tax return than investing, for example, in fixed rate cash (see Comparing Projected Returns with Alternative Investments).

The above projected growth rates and values are not inflation-adjusted.

The intrinsic valuations produced by ShareMaestro are measurements of the *current value* of the shares/FTSE 100. If a share is shown to be, say, 20% undervalued and reverts to fair value within a year, an early healthy profit will be achieved without having to be invested for the full 5 years.

GETTING STARTED

SYSTEM REQUIREMENTS

The following requirements are needed to operate ShareMaestro:

1. PC connected to the internet, preferably by broadband
2. Windows XP, Vista, Windows 7, Windows 8 (not touch-screen) or Windows for Mac operating system.
3. At least 25 megabytes of hard drive space
4. Adobe Acrobat reader (available free from the Adobe website) to read the User Manual.
5. Excel Viewer (available free from the Microsoft website http://www.microsoft.com/en-us/download/search.aspx?q=viewer) to view the weekly ShareMaestro FTSE All-Share Valuation spreadsheet.
6. Excel 2003 onwards to view and edit the weekly ShareMaestro FTSE All- Share Valuation spreadsheet or to use the ShareMaestro bulk valuation software.

ACCESSING THE SHAREMAESTRO FTSE ALL-SHARE VALUATION SPREADSHEET

The spreadsheet is available from a private page of the ShareMaestro website. To access the page, you need to enter a User ID and password, which you will be advised in your joining instructions together with the web address of the private page. The password is case-sensitive. When you have entered the private page, double click, where indicated, to download the spreadsheet. If you wish, you can save this spreadsheet in a location of your choice. The spreadsheet is updated every week. By downloading the spreadsheet you are accepting the ShareMaestro terms and conditions.

INSTALLING SHAREMAESTRO SOFTWARE

The weekly ShareMaestro FTSE All- Share Valuation spreadsheet now provides most of the functions (and more) previously provided by the ShareMaestro software. You only need to use the ShareMaestro software if you wish to use the ShareMaestro bulk share valuation function (especially customized share selections if you are a ShareScope Plus or Pro client) or to undertake single valuations.

To install the ShareMaestro software, you should close all programs, other than your internet connection and browser, before installing ShareMaestro.

1. Download the program zip file from the ShareMaestro website. This will be named sharemaestroSetupdate.zip e.g. sharemaestroSetup20090227.zip. Choose to Save it to a convenient location (e.g. Desktop) rather than to Open it.

2. When the zip folder has downloaded, double-click on the zip folder to open it.

3. Double-click on the ShareMaestroSetup.msi (XP, Windows 7 and Windows 8) or ShareMaestro.Setup icon (Vista) to launch the Windows installer package.

4. Follow the on-screen instructions. In Vista select “Allow” if you get a message that an unidentified program wants access to your computer.

LICENSING SHAREMAESTRO SOFTWARE

1. Following successful installation, select ShareMaestro from the All Programs list and click on the extension tab which includes the ShareMaestro logo.

2. On the first use of the program, you will be presented with the licensing screen. *You must be connected to the internet to license ShareMaestro.*

3. Enter in the boxes the User ID and password which you received by email following your subscription to ShareMaestro. Press Enter or tab down after entering the password.

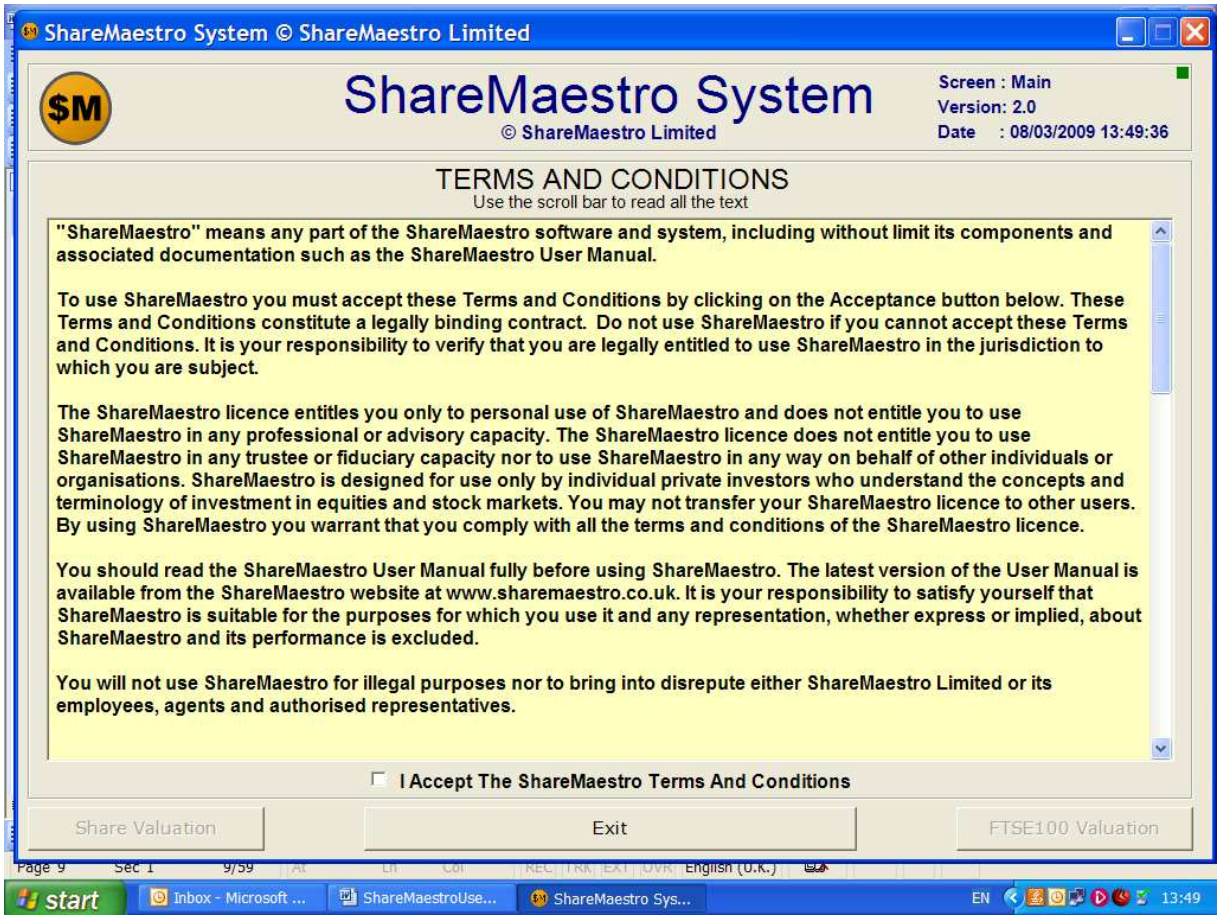
4. After a short interval, you should see on the screen your name and the expiry date of your subscription. If you have any problems, please contact ShareMaestro customer service at service@sharemaestro.co.uk.

5. Press Enter ShareMaestro and, after a short pause, you will be presented with the ShareMaestro Terms and Conditions screen. If you cannot see a Terms and Conditions box to check or the Shares or FTSE100 screen buttons, you pc is not displaying the whole ShareMaestro screen. To solve this, via Control Panel/Display/Settings, set the display resolution to the highest possible or consult the manual for your monitor or laptop on how to adjust the display.

6. You will not need to enter your User ID and password for subsequent use of ShareMaestro.

7. We will, on request, issue you with a new ID and password if you wish to change your operating system or transfer your licence to another PC.

8. To use ShareMaestro you must read all the Terms and Conditions (***use the scroll bar on the right to see all the text***) and click on the "I Accept the ShareMaestro Terms and Conditions" box. When you have done this, the "Share Valuation" and "FTSE 100 Valuation" boxes become active. Click on the relevant box according to the type of valuation which you want to undertake.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© ShareMaestro Limited
Screen : Main
Version: 2.0
Date : 08/03/2009 13:49:36
TERMS AND CONDITIONS
Use the scroll bar to read all the text
"ShareMaestro" means any part of the ShareMaestro software and system, including without limit its components and associated documentation such as the ShareMaestro User Manual.
To use ShareMaestro you must accept these Terms and Conditions by clicking on the Acceptance button below. These Terms and Conditions constitute a legally binding contract. Do not use ShareMaestro if you cannot accept these Terms and Conditions. It is your responsibility to verify that you are legally entitled to use ShareMaestro in the jurisdiction to which you are subject.
The ShareMaestro licence entitles you only to personal use of ShareMaestro and does not entitle you to use ShareMaestro in any professional or advisory capacity. The ShareMaestro licence does not entitle you to use ShareMaestro in any trustee or fiduciary capacity nor to use ShareMaestro in any way on behalf of other individuals or organisations. ShareMaestro is designed for use only by individual private investors who understand the concepts and terminology of investment in equities and stock markets. You may not transfer your ShareMaestro licence to other users. By using ShareMaestro you warrant that you comply with all the terms and conditions of the ShareMaestro licence.
You should read the ShareMaestro User Manual fully before using ShareMaestro. The latest version of the User Manual is available from the ShareMaestro website at www.sharemaestro.co.uk. It is your responsibility to satisfy yourself that ShareMaestro is suitable for the purposes for which you use it and any representation, whether express or implied, about ShareMaestro and its performance is excluded.
You will not use ShareMaestro for illegal purposes nor to bring into disrepute either ShareMaestro Limited or its employees, agents and authorised representatives.
I Accept The ShareMaestro Terms And Conditions
Share Valuation
Exit
FTSE100 Valuation
start
Inbox - Microsoft ...
ShareMaestroUse...
ShareMaestro Sys...
EN
13:49

USING THE WEEKLY VALUATION SPREADSHEET

The spreadsheet is available to ShareMaestro clients via a private page of the ShareMaestro website. The spreadsheet is normally updated weekly and available by Saturday noon (UK time) for the close of week data. The private page is password-protected and clients will be advised of their specific user ID and password to access this page. Double-click where indicated on the page to open the spreadsheet. Excel viewer, which is available free from Microsoft via http://www.microsoft.com/en-us/download/search.aspx?q=viewer , will enable viewing and printing only of the share valuations. Excel 2003 onwards, which is available for around £60, will additionally allow clients to edit the valuations and use other Excel functions.

The valuation spreadsheet includes the following major features:

- valuations of the FTSE 100 and of shares in the FTSE All-Share index, showing their intrinsic value and percentage of value to current market price.
- shares sorted from worst value to best value.
- the prices required for the standard valuation buy and sell trigger points (105% and 95%) to be reached.
- projected investment returns post basic-rate tax.
- the facility to tailor post-tax investment returns to your own dividend and capital gains tax rates.
- the option to tailor returns incorporating your own personal risk premium or margin of safety.
- ShareScope data, including broker forecasts, incorporated into the automated share valuations.
- our best estimate of the key real dividend growth rate for the FTSE 100.
- the facility to revise valuations using your own assumptions for the assessed, non-factual input values.
- the option to assess the impact on valuations of possible future changes to the incorporated economic factors (interest rates and inflation).
- the facility to fill missing input values with your own assumptions so that missing share valuations can be produced.
- standard Excel functionality to store and print valuations and to find particular shares rapidly.
- the potential for this spreadsheet to be used on non-Windows platforms (we will monitor this).

NAVIGATING THE SPREADSHEET

Navigating the spreadsheet is easy. Use the right-hand vertical scroll button to move the rows up and down. Use the bottom horizontal scroll button to move the columns from side to side. The spreadsheet contains both input fields and results fields. The contents of each of these fields are described in the following sections of this chapter.

The first rows contain common input data which are used in the valuation of all shares and the FTSE 100 (column B). The valuation of the FTSE 100 follows (row 65) and, after that, share valuations, sorted from worst value to best value (rows 66 on). Finally there follow the shares for which valuations could not be produced, because some of the specific share data was missing. You can input your own values for the missing data to create valuations for the shares (see below). Definitions of the values given in each input and results field are provided at the end of this section.

To jump to a particular share, you can you the Excel Edit/Find command. You can edit each assessed input value with your own values. This facility includes both common input data and share-specific input data. Examples of this editing are given below. Cells which you cannot edit are locked.

The calculated intrinsic values of shares and the percentages of those values to market prices are shown in columns BE and BF respectively.

Cell references: For example B24 indicates the cell located at row 24, column B.

FTSE 100 VALUATION

The weekly spreadsheet gives an automated valuation for the FTSE100, incorporating our best estimate for the key Real Dividend Growth Rate (see below). Various types of information are given in the results fields, of which one of the most important is in column BF – Value as % of Current Price. You simply can use this % valuation to follow the FTSE 100 ETF investment strategy, FTSE 100 Spread Bet Strategy or the FTSE250 ETF Investment Strategy, all of which have very strong track records. If you wish to override the best estimate for the Real Dividend Growth Rate with the long-term average of 2.0% p.a., if this is different, you can easily do this by overriding the input value in cell AT65.

Input and Results Fields

The contents of the input and results fields relating to the FTSE 100 valuation are described in detail in the sections Directory of Input Values and Directory of Results.

Editing FTSE100 Assessed Values

The FTSE 100 valuation (Row 65) incorporates two values which are assessed rather than factual:

- **The Risk Premium** (cell AS 65). The Risk Premium compensates for the greater risk of holding shares rather than fixed rate cash. The valuation uses the input Risk Premium

value to reduce the final investment value by 100/(100+the Risk Premium). Our exclusive research shows the long-term value of the Risk Premium to be 10%. You can override this value with your own assessment, if you wish. This Risk Premium is used in the calculation of the current intrinsic value of the FTSE 100. It is not used in the projected annual five-year growth rate of a FTSE 100 investment (BN65). However you can input your own personal risk premium to project a personal growth rate).

- **The Real Dividend Growth Rate %** (cell AT 65)**.** This is the compound annual growth rate of the FTSE 100 dividend over the five-year investment period in excess of inflation. This is the most important input value in the FTSE 100 valuation. The weekly spreadsheet gives our latest assessment for this value. The long-term actual average for this value is just over 2%. You can override our assessed value with your own assessment, if you wish.

Adjusting the FTSE 100 valuation for potential changes to interest rates and inflation

You can test the impact on valuations of potential changes to interest rates and inflation as described in the section Testing the Impact of Changes to the Economic Environment.

Projected FTSE100 Investment Returns

The projected annual return from a 5-year investment in the FTSE 100 is shown in cell BN65. This return is post basic-rate tax and is not affected by the Risk Premium, which is only used to calculate the current intrinsic value of the FTSE 100.

If you wish to adjust this return for the impact of:

- Higher-rate tax
- Capital Gains Tax
- Your own choice of Risk Premium (Personal Risk Premium)

please refer to the section Using Personal Tax Rates and Personal Risk Premium (PRP) to Calculate Personal Investment Returns.

Having obtained your projected post-tax personal investment return, you can compare this return with the projected returns for alternative investment opportunities, as described in the section Comparing Projected Returns with Alternative Investments. This will aid investment decisions.

SHARE VALUATIONS

The weekly spreadsheet gives automated valuations for shares in the FTSE All-Share index. Various types of information are given in the results fields, of which one of the most important is in column BF – Value as % of Current Price. Shares are shown ranked by this value, from lowest to highest. You can simply run a share portfolio from the automated valuations by:

- Following the steps recommended in the section: Reviewing and Fine-tuning share valuations.

- Implementing the principles recommended in the section: Running and Effective Share Portfolio.

If you wish to adjust the valuations using your own assumptions, the sections below explain how you can do this,

EDITING ASSESSED VALUES

			INPUT	DATA				RESULTS		
58	*data, which is supplied by third parties.*									
59	*the ShareMaestro terms and conditions,*									
60	*at www.sharemaestro.co.uk. ShareMaestro*		*Factual data*	*Factual data*	*Assessed data*	*Assessed data*	*Assessed data*		Actual	
61	*ShareMaestro Limited.*	*Factual data*	**Current share**	**Current net**	**Unadjusted end-**	**Risk**	**Real Dividend**	**Current**	**Dividend**	E
62	**SECTOR**	**Share ID**	**price**	**dividend % yield**	**period div yield %**	**Premium %**	**Growth Rate % p.a.**	**Net Dividend**	**Growth Rate**	D
65		FTSE100	6650.6	3.52	3.52	10	0.00	234.1	2.8	
66	Technology Hardware & Equipment	PRW	19.5	8.72	-23.29	15	-11.52	1.7	-9.0	
67	Real Estate Investment & Services	CAPC	330.6	0.45	6.35	15	-1.30	1.5	1.5	
68	Technology Hardware & Equipment	ARM	1018	0.44	2.08	38.5	8.46	4.5	11.5	
69	Real Estate Investment Trusts	GPOR	582	1.42	5.96	15	1.34	8.3	4.2	

In producing a share valuation, there are three share-specific input values which are assessed rather than factual: Risk Premium %, Real Dividend Growth Rate % and Unadjusted End-period Share Dividend Yield %. The automated share valuation process uses various sources and methodologies to produce these input values, as described below. However you can, if you wish, input your own values to override these automated values. You can override these 3 input values either in isolation or in combination with the other 2 values and also, if you wish, is combination with what-if changes to the economic factors.

Risk Premium % (column AS).

The Risk Premium compensates for the greater risk of holding equities than gilts (where the return is guaranteed by the UK government if you hold the gilt to maturity). ShareMaestro uses the Risk Premium to reduce the valuation of the FTSE 100 or individual share. The valuation, pre Risk Premium, is multiplied by a fraction, of which 100% is the numerator and (100% + Risk Premium) is the denominator. For example a Risk Premium of 30% will produce a share valuation which is 11.5 % lower than a Risk Premium of 15%.

The Risk Premium for an individual share will be higher than for an index, because of the lack of diversification and the increased exposure to unpredictable and potentially damaging events. Even a blue-chip stock will have a Risk Premium of at least 15%, compared to the default 10% for the FTSE 100. On more speculative shares the risk premium could be as high as 75%.

One of the key determinants of a company's Risk Premium is the volatility of the share price. A common measure of this volatility is the beta value, which measures how volatile the share price is in relation to the volatility of the index. A higher value than 1.0 indicates higher relative volatility and a lower value than 1.0 indicates lower relative volatility. The automated share valuation method increases the Risk Premium of a share above the minimum 15% by 5% for every 0.1% the beta value is above 1.0, up to a maximum of 75%. The beta value for a share can be found e.g. via the Risk Table of Performance Tables in the Investing Channel of Digital Look (www.digitallook.com). Please note that different share data services calculate beta values over different periods and so the quoted values can differ somewhat.

When setting a Risk Premium, you should also take into account potential threats to the earnings of the company. This is not an exact science. Some factors to take into account are the:

- track record on dividend payments
- exposure to political risks
- exposure to competitive risks
- recent record on profits and earnings
- threats and opportunities for the future
- quality of the company's management

Essentially the Risk Premium is a measure of your confidence in the projected sustainable dividend growth rate for the company (see next section). An alternative method, to calculate the Risk Premium according to past volatility of earnings, is as follows:

- Look at the earnings per share (EPS) figures for the past five years using Digital Look. If there has been a steady increase in EPS for every year, use 15% as the risk premium.
- If there has been a decline in any year, find the biggest absolute fall over the period between one year and any subsequent year.
- Measure the percentage fall from the top to the bottom.
- Add this percentage fall to the 15% minimum risk premium up to a maximum of 75 to calculate the risk premium

For example, the biggest drop in EPS for share X over the last five years was from 60 in year 2 to 48 in year 4. The represents a 20% drop (12/60 x 100). Therefore, add 20 to 15 to make a risk premium of 35%. If the drop had been 70%, the overall risk premium would be capped at 75%.

Real Dividend Growth Rate % p.a. (column AT).

This is the projected compound real dividend growth rate p.a. over the 5-year investment period. Real dividend growth prospects are much harder to forecast for individual companies than for overall indices. The real dividend growth rate is the most important assessed input value for calculating the share value. The automated calculation of share value bases the dividend growth rate on consensus broker forecasts for the specific share. Our research has shown that, where these forecasts prove to be accurate, the best value shares on average outperform the market by more than 20% over the next two years.

You can change the automated calculation of the real dividend growth rate for a particular share in two ways:

- Firstly you can override the default annual real share dividend growth rate shown in cell B36. This value is used in conjunction with the projected average inflation rate to calculate dividend growth for years four and five of the forecast, for which consensus broker forecast information is not available. Please note that changing the default annual real share dividend growth rate will change the valuations of all shares. If you are reviewing another share valuation, you will need to change the default figure to what you think is appropriate for that share.

- Alternatively, you can override the calculated real dividend growth rate shown in column AT with your own input value, as described below.

Taking into account the forecast average inflation rate over the period, you should input what you judge to be the most likely real compound % p.a. dividend growth for the target share. The real growth is the actual growth less the effect of inflation. This real growth figure can be positive or negative. For example, if average inflation for the period has been calculated at 2.5% p.a. and you believe that the dividend of the individual share will increase on average by 6 % p.a., you should input a Real Dividend Growth Rate % p.a. of 3.5% (6.0 less 2.5). On the other hand, if you believe that the actual dividend growth will only average 1% p.a., input a Real Dividend Growth Rate % p.a. of –1.5% (1.0 less 2.5).

For individual UK companies the recent dividend history and consensus broker forecasts for dividend growth are available from websites such as www.digitallook.com. When companies declare dividends and earnings in currencies other than £ sterling (e.g. BP) ensure that all figures are expressed in £ sterling at current exchange rates before calculating historic and prospective growth rates. Research sites often quote past dividends and earnings per share in currency and future figures in £ sterling.

With ShareScope you can view the dividend forecasts of each broker. However brokers do not always agree on corporate prospects and so you need to use your own judgement, using your knowledge and research. Publications such as the Investors Chronicle, Shares Magazine and the Financial Times, provide comment on the results and prospects of UK companies. These comments provide context to the dry accounting figures.

Unadjusted End-period share dividend yield % (column AR).

There is a strong, though not exact, relationship between dividend yield and dividend cover. The lower the dividend cover (earnings per share/dividend per share) the higher the dividend yield, as the market price falls to reflect the reduced prospects for the dividend flow. The automated calculation of this input value adjusts the current FTSE 100 dividend yield % by the ratio of the final broker forecast year (2 or 3 years' time) dividend cover to the target dividend cover for the particular share. To get the final adjusted end-period dividend yield for the share, this unadjusted dividend yield is adjusted by the projected change from the current FTSE 100 dividend yield to the forecast end-period FTSE 100 dividend yield (which is calculated by ShareMaestro).

You can amend the automated calculation of this input value in one of two ways:

- Change the pre-populated target dividend cover in cell B38. This will change the valuations of all shares. A dividend cover of at least 2.0 is normally regarded as necessary to protect the dividend.

- Alternatively you can override the automated input value in column AR with your own value. You should give your projection of how, by the end of the 5-year investment period, the net share dividend yield will relate to the FTSE 100 net dividend yield. For example, if the current yield of the FTSE 100 is 4.2% and you believe that the yield on the share will be half of the FTSE 100 by the end of the investment period, you would enter 2.1 in this field.

INPUTTING MISSING DATA TO CREATE VALUATIONS

Automated valuations will not be reproduced for shares which do not currently pay a dividend nor for shares where missing broker forecast information results in missing input values for Unadjusted End-period Share Dividend Yield % (column AR) or Real Dividend Growth Rate % (column AT). You can create valuations by inputting your own values for these latter two fields, as described in the previous section, and by ensuring that the Current Net Dividend Yield % field (column AQ) is completed.

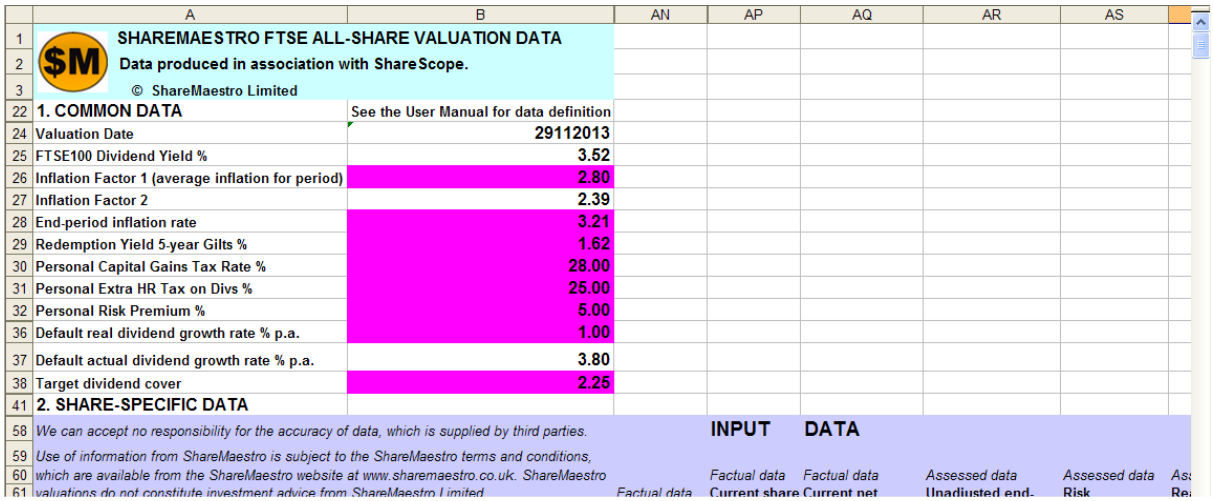
If a share is not currently paying a dividend, a valuation cannot be produced.

DIRECTORY OF INPUT VALUES

The input values are pre-populated on the spreadsheet except where broker forecasts are not available for the relevant fields.

The input values, and the associated column in which they appear, are described below. Editable input values are shown in italics.

COMMON INPUT DATA



	A	B	AN	AP	AQ	AR	AS
1	SHAREMAESTRO FTSE ALL-SHARE VALUATION DATA						
2	Data produced in association with ShareScope.						
3	© ShareMaestro Limited						
22	1. COMMON DATA	See the User Manual for data definition					
24	Valuation Date	29112013					
25	FTSE100 Dividend Yield %	3.52					
26	Inflation Factor 1 (average inflation for period)	2.80					
27	Inflation Factor 2	2.39					
28	End-period inflation rate	3.21					
29	Redemption Yield 5-year Gilts %	1.62					
30	Personal Capital Gains Tax Rate %	28.00					
31	Personal Extra HR Tax on Divs %	25.00					
32	Personal Risk Premium %	5.00					
36	Default real dividend growth rate % p.a.	1.00					
37	Default actual dividend growth rate % p.a.	3.80					
38	Target dividend cover	2.25					
41	2. SHARE-SPECIFIC DATA						
58	*We can accept no responsibility for the accuracy of data, which is supplied by third parties.*			INPUT	DATA		
59	*Use of information from ShareMaestro is subject to the ShareMaestro terms and conditions,*						
60	*which are available from the ShareMaestro website at www.sharemaestro.co.uk. ShareMaestro*			*Factual data*	*Factual data*	*Assessed data*	*Assessed data*
61	*valuations do not constitute investment advice from ShareMaestro Limited*		*Factual data*	Current share	Current net	Unadjusted end-	Risk

Cell B24 indicates the cell located at row 24, column B.

Common input data is used in all valuations and is not share-specific:

Cell B24: Valuation Date - Date of the valuation data

Cell B25: FTSE 100 Dividend Yield % - The FTSE 100 dividend paid over the last year, expressed as a percentage of the current market price

Cell B26: ***Inflation Factor 1 (average inflation for period)*** - market expectations for average inflation over the next five years, as published by the Bank of England

Cell B27: Inflation Factor 2 – a calculated value, used by ShareMaestro software to produce valuations

Cell B28: ***End-period Inflation Rate*** - market expectations for inflation in five years time, as published by the Bank of England

Cell B29: ***Redemption Yield 5-year Gilts %*** - the current gross redemption yield on gilts redeemed in five years' time. This yield takes into account the current market price, the redemption value and interest payments over the period.

Cell B30*: Personal Capital Gains Tax Rate %* - your personal marginal capital gains tax rate. This should take into account the annual tax-free capital gains allowance and other capital gains incurred during the tax year. In the 2013/2014 tax year, after the tax-free capital gains tax allowance has been used, the personal capital gains tax rate % is 18% for basic-rate taxpayers and 28% or higher-rate taxpayers.

Cell B31: ***Personal Extra HR Tax on Divs %*** – this will be zero if you are a basic-rate taxpayer. This is the extra percentage tax on the net dividend (after deemed basic rate tax) which higher-rate tax payers have to pay. In the 2013/2014 tax year, the extra tax for normal higher-rate taxpayers (excluding the super-tax rate) is 25% on the dividend received.

Cell B32: ***Personal Risk Premium %*** - this Personal Risk Premium % is used to calculate your projected personal five-year investment return on the FTSE 100 or individual share according to the calculated valuation. The Risk Premium essentially compensates for the greater risk of investing in shares as opposed to fixed rate cash. The Risk Premium which you choose reduces the projected final investment value (and hence the projected return) by multiplying the final investment value by 100 and dividing by (100+ the personal risk premium). This Risk Premium provides some cushion against the risk that the projected final investment value may not be met. You may choose to put a higher risk premium on shares which you regard as speculative. On the other hand, for safer shares and the FTSE 100, you may choose to use of zero personal risk premium on the basis that the risk of the investment value not being met is counterbalanced by the potential for the investment value to be exceeded. The Risk Premium, and the method by which the default values are calculated, is discussed further in the previous section.

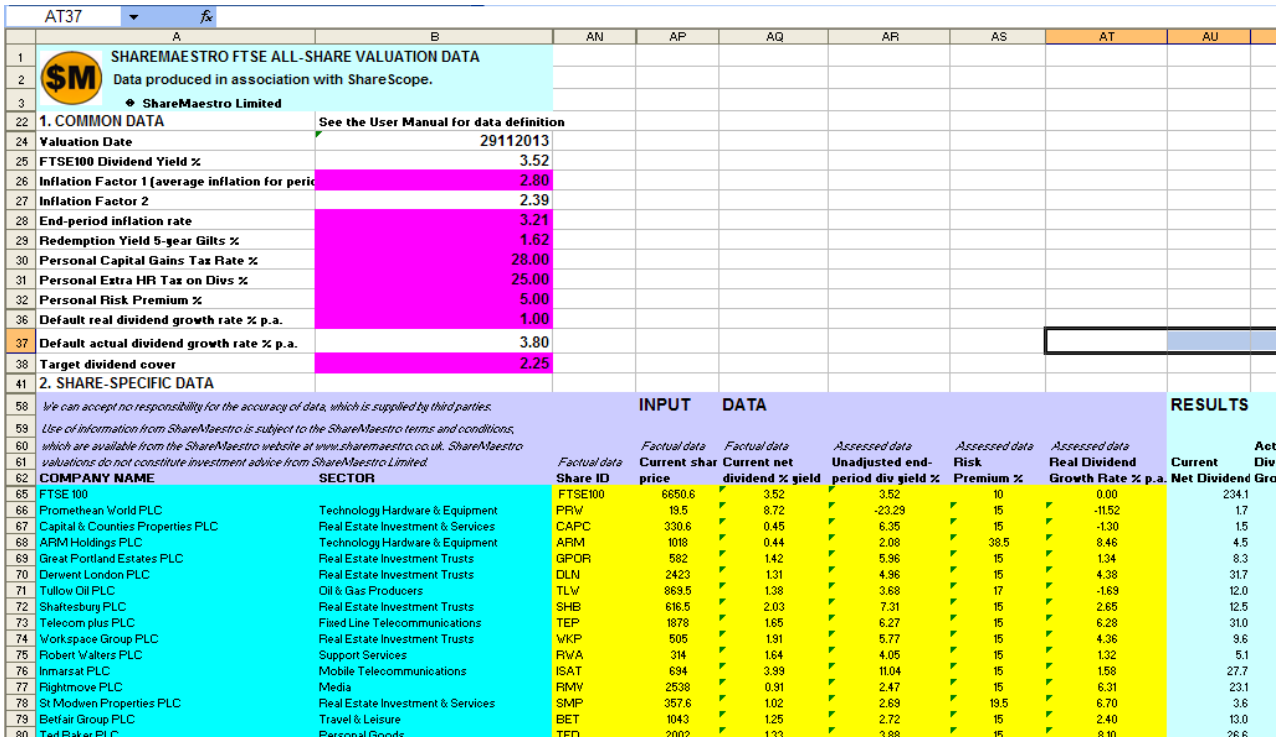
Cell B36: ***Default Real Share Dividend Growth Rate % p.a.*** – This is used in combination with the projected average inflation rate to calculate the Default Actual Dividend Growth Rate % p.a. (See below). The default value is 1.0 but you can amend this if you believe the applicable real dividend growth rate for a particular share should be lower or higher. This figure can be negative as well as positive.

Cell B37: Default Actual Share Dividend Growth Rate % p.a. - For individual shares this is used to project the dividends for years four and five of the five-year investment period.

Cell B38: ***Target Dividend Cover*** - Dividend cover is the multiple of earnings per share to dividend per share. A very low dividend cover indicates that the future dividend may be in jeopardy because there are insufficient earnings from which to provide the dividend. A dividend cover of 2.0 is normally regarded as acceptable. The default value for target dividend cover is 2.25 but you can amend this if you wish. As there is a strong relationship between dividend yield and dividend cover, the prospective final year dividend cover on a

share is used to calculate the final year dividend yield. In general, a high dividend cover is associated with low dividend yield because there should be scope to produce premium dividend growth in future. Controversy a low dividend cover is associated with a high dividend yield because the market does not see scope for any significant future dividend increases.

SHARE-SPECIFIC INPUT DATA (ROWS 66 ONWARDS)



	A	B	AN	AP	AQ	AR	AS	AT	AU
1	SHAREMAESTRO FTSE ALL-SHARE VALUATION DATA								
2	Data produced in association with ShareScope.								
3	© ShareMaestro Limited								
22	1. COMMON DATA	See the User Manual for data definition							
24	Valuation Date	29112013							
25	FTSE100 Dividend Yield %	3.52							
26	Inflation Factor 1 (average inflation for peri	2.80							
27	Inflation Factor 2	2.39							
28	End-period inflation rate	3.21							
29	Redemption Yield 5-year Gilts %	1.62							
30	Personal Capital Gains Tax Rate %	28.00							
31	Personal Extra HR Tax on Divs %	25.00							
32	Personal Risk Premium %	5.00							
36	Default real dividend growth rate % p.a.	1.00							
37	Default actual dividend growth rate % p.a.	3.80							
38	Target dividend cover	2.25							
41	2. SHARE-SPECIFIC DATA								
58	*We can accept no responsibility for the accuracy of data, which is supplied by third parties.*			INPUT	DATA				RESULTS
59	*Use of information from ShareMaestro is subject to the ShareMaestro terms and conditions,*								
60	*which are available from the ShareMaestro website at www.sharemaestro.co.uk. ShareMaestro*			*Factual data*	*Factual data*	*Assessed data*	*Assessed data*	*Assessed data*	
61	*valuations do not constitute investment advice from ShareMaestro Limited*	*Factual data*		Current shar	Current net	Unadjusted end-	Risk	Real Dividend	Current
62	COMPANY NAME	SECTOR	Share ID	price	dividend % yield	period div yield %	Premium %	Growth Rate % p.a.	Net Dividend
65	FTSE 100		FTSE100	6650.6	3.52	3.52	10	0.00	234.1
66	Promethean World PLC	Technology Hardware & Equipment	PRW	19.5	8.72	-23.29	15	-11.52	1.7
67	Capital & Counties Properties PLC	Real Estate Investment & Services	CAPC	330.6	0.45	6.35	15	-1.30	1.5
68	ARM Holdings PLC	Technology Hardware & Equipment	ARM	1018	0.44	2.08	38.5	8.46	4.5
69	Great Portland Estates PLC	Real Estate Investment Trusts	GPOR	582	1.42	5.96	15	1.34	8.3
70	Derwent London PLC	Real Estate Investment Trusts	DLN	2423	1.31	4.96	15	4.38	31.7
71	Tullow Oil PLC	Oil & Gas Producers	TLW	869.5	1.38	3.68	17	-1.69	12.0
72	Shaftesbury PLC	Real Estate Investment Trusts	SHB	616.5	2.03	7.31	15	2.65	12.5
73	Telecom plus PLC	Fixed Line Telecommunications	TEP	1878	1.65	6.27	15	6.28	31.0
74	Workspace Group PLC	Real Estate Investment Trusts	WKP	505	1.91	5.77	15	4.36	9.6
75	Robert Walters PLC	Support Services	RWA	314	1.64	4.05	15	1.32	5.1
76	Inmarsat PLC	Mobile Telecommunications	ISAT	694	3.99	11.04	15	1.58	27.7
77	Rightmove PLC	Media	RMV	2538	0.91	2.47	15	6.31	23.1
78	St Modwen Properties PLC	Real Estate Investment & Services	SMP	357.6	1.02	2.69	19.5	6.70	3.6
79	Betfair Group PLC	Travel & Leisure	BET	1043	1.25	2.72	15	2.40	13.0
80	Ted Baker PLC	Personal Goods	TED	2002	1.33	3.88	15	8.10	26.6

Editable values are shown in italics.

Column A: Company Name

Column B: Company Sector - the industrial sector in which the company is grouped by the Financial Times in share listings (e.g. Banks, Food Producers)

Column AN: Share ID - this is the short identifier for the company, also referred to as the EPIC

Column AP: Current Share Price - the closing market price at the date of the valuation

Column AQ: Current net dividend yield % - the dividend paid for the last year expressed as a percentage of the current share price

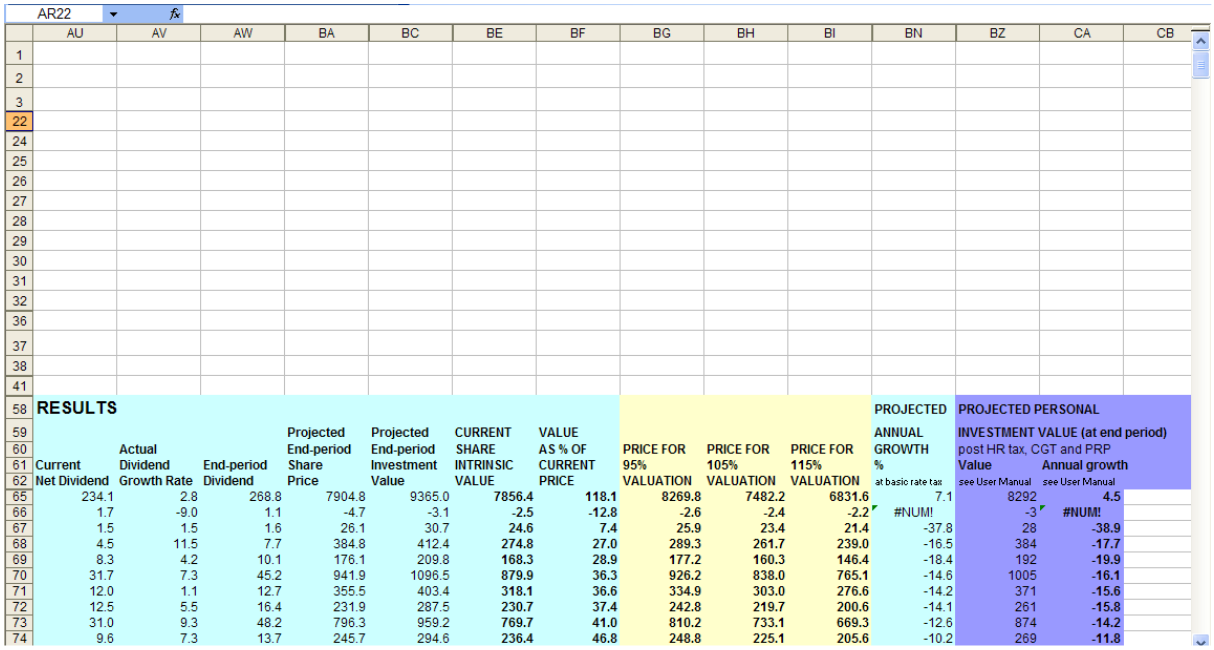
Column AR: *Unadjusted end-period dividend yield %* - this value is calculated by adjusting the current FTSE 100 dividend yield % by the ratio of the final broker forecast year (2 or 3 years' time) share dividend cover to the target dividend cover (see previous section)

Column AS: *Risk Premium %* - the long-term Risk Premium of the FTSE 100 has been established by our exclusive research to be 10%. The Risk Premium of a share is

determined from its volatility in relation to the volatility of the FTSE 100 (“beta”), with a minimum value of 15%. The Risk Premium compensates for the greater risk of investing in equities rather than in fixed rate cash. In ShareMaestro, the Risk Premium reduces the final investment value in year 5 by 100 /(100+ Risk Premium) (see previous section).

Column AT: *Real Dividend Growth Rate %*:- a Real Dividend Growth Rate % is derived by calculating the annual compound dividend growth rate from the current dividend to the final year dividend in the five-year investment period and stripping out inflation. The growth rate may be positive or negative (see previous section).

DIRECTORY OF RESULTS



	AU	AV	AW	BA	BC	BE	BF	BG	BH	BI	BN	BZ	CA	CB
58	RESULTS										PROJECTED	PROJECTED PERSONAL		
59				Projected	Projected	CURRENT	VALUE				ANNUAL	INVESTMENT VALUE (at end period)		
60		Actual		End-period	End-period	SHARE	AS % OF	PRICE FOR	PRICE FOR	PRICE FOR	GROWTH	post HR tax, CGT and PRP		
61	Current	Dividend	End-period	Share	Investment	INTRINSIC	CURRENT	95%	105%	115%	%	Value	Annual growth	
62	Net Dividend	Growth Rate	Dividend	Price	Value	VALUE	PRICE	VALUATION	VALUATION	VALUATION	at basic rate tax	see User Manual	see User Manual	
65	234.1	2.8	268.8	7904.8	9365.0	7856.4	118.1	8269.8	7482.2	6831.6	7.1	8292	4.5	
66	1.7	-9.0	1.1	-4.7	-3.1	-2.5	-12.8	-2.6	-2.4	-2.2	#NUM!	-3	#NUM!	
67	1.5	1.5	1.6	26.1	30.7	24.6	7.4	25.9	23.4	21.4	-37.8	28	-38.9	
68	4.5	11.5	7.7	384.8	412.4	274.8	27.0	289.3	261.7	239.0	-16.5	384	-17.7	
69	8.3	4.2	10.1	176.1	209.8	168.3	28.9	177.2	160.3	146.4	-18.4	192	-19.9	
70	31.7	7.3	45.2	941.9	1096.5	879.9	36.3	926.2	838.0	765.1	-14.6	1005	-16.1	
71	12.0	1.1	12.7	355.5	403.4	318.1	36.6	334.9	303.0	276.6	-14.2	371	-15.6	
72	12.5	5.5	16.4	231.9	287.5	230.7	37.4	242.8	219.7	200.6	-14.1	261	-15.8	
73	31.0	9.3	48.2	796.3	959.2	769.7	41.0	810.2	733.1	669.3	-12.6	874	-14.2	
74	9.6	7.3	13.7	245.7	294.6	236.4	46.8	248.8	225.1	205.6	-10.2	269	-11.8	

Column AU: Current Net Dividend - the dividend per share, net of the deemed basic rate of tax, paid out over the last year.

Column AV: Actual Dividend Growth Rate % - the projected actual annual dividend growth rate including inflation over the five year investment period.

Column AW: End-period Dividend - the projected dividend for the final year of the five-year investment period.

Column BA: Projected End-period Share Price - the projected FTSE 100 or share price in five years’ time.

Column BC: Projected End-period Investment Value - the projected investment value, including reinvested dividends taxed at the basic rate of tax, in five years’ time. It does not include any assumed deduction for capital gains tax and is not reduced by any risk premium.

Column BE: CURRENT SHARE INTRINSIC VALUE - the calculated current intrinsic value of the share or FTSE 100. It is derived from the projected end-period investment value,

reduced by the risk premium and discounted for five years back to present value by the gross redemption yield on five-year gilts.

Column BF: VALUE AS % OF CURRENT PRICE: the current share intrinsic value expressed as a percentage of the current market price. 100 % is fair value, above 100% is good value and below 100% is poor value.

Column BG: PRICE FOR 95% VALUATION - the price to which the market price would have to reach to produce a 95% valuation. This calculated price should only be used for strategic valuation targets between weekly valuations. It should be rechecked at each weekly valuation, as other factors might change to change this price.

Column BH: PRICE FOR 105% VALUATION - the price to which the market price would have to reach to produce a 105% valuation. This calculated price should only be used for strategic valuation targets between weekly valuations. It should be rechecked at each weekly valuation, as other factors might change to change this price.

Column BI: PRICE FOR 115% VALUATION - the price to which the market price would have to reach to produce a 115% valuation. This calculated price should only be used for strategic valuation targets between weekly valuations. It should be rechecked at each weekly valuation, as other factors might change to change this price.

Column BN: PROJECTED ANNUAL GROWTH % - the projected compound annual growth of the investment over the five-year period, including dividends taxed at the basic rate of tax. It does not include any reduction in the investment for either capital gains tax or the risk premium.

Column BZ: PROJECTED PERSONAL INVESTMENT VALUE - the projected personal investment value at the end of the five-year investment period, taking into account your inputs for any higher-rate tax, capital gains tax and personal risk premium (PRP).

Column CA: PROJECTED PERSONAL INVESTMENT VALUE Annual Growth % - the projected compound annual post-tax growth of the investment, derived by comparing the PROJECTED PERSONAL INVESTMENT VALUE with the current FTSE 100 or share price. This projected growth rate can be used to compare the return on the investment with other potential returns available e.g. five-year fixed rate cash.

USING PERSONAL TAX RATES AND PERSONAL RISK PREMIUM (PRP) TO CALCULATE PERSONAL INVESTMENT RETURNS

The automated valuations produce a projected compound annual five-year investment return, including the reinvestment of dividends taxed at the basic rate of tax (column BN). This return does not take account of any capital gains tax payable nor does it take account of the Risk Premium, which is only used for the calculation of the current intrinsic share value.

You can customise the calculated investment return to produce a post-tax return which takes into account your tax situation. You also have the option to include your choice of Risk Premium for the FTSE 100 or share; this will reduce the projected return accordingly:

- **Personal Capital Gains Tax Rate %** (cell B30). Enter here your effective marginal capital gains tax rate. Consult the HMRC website for the prevailing basic and higher-rate capital gains tax rates. Please bear in mind that, under the UK tax regime, there is no capital gains tax payable on investments in ISA and SIPPs. There is also an annual capital gains allowance before any tax is payable. So the value for this field may be zero, depending on your personal circumstances. The default value for this cell is zero.

- **Personal Extra HR Tax on Divs %** (cell B31). This is the *extra* tax payable by higher-rate taxpayers on the net amount of UK dividends received. In the 2013/2014 tax year, although the tax rate on the notional gross dividend was 32.5% for ordinary high-rate tax payers, the extra tax payable on the net dividend received was 25%. The default value for this cell is zero, as basic rate tax is taken at source from UK dividends.

- **Personal Risk Premium %** (cell B32). You can enter your own choice of Risk Premium or you can use the Risk Premium used in the automated valuations (column AS). The default value for this cell is zero.

COMPARING PROJECTED RETURNS WITH ALTERNATIVE INVESTMENTS

You can compare your personalised projected post-tax investment returns with returns from alternative investment opportunities. An obvious alternative would be fixed-rate cash deposits, whether from banks or building societies. You should be aware that the headline interest rates quoted by these institutions are gross rates, before the tax has been deducted. So, in the tax year 2013/14, a headline cash interest rate of 3% equates to a rate of just 2.4%, after basic rate tax. For example, at the time of writing (December 2013), the best quoted five-year fixed rate interest rate is 3.2%. This equates to 2.56%, post the basic rate of tax. By comparison the yield on the FTSE 100 is around 3.5%. This yield is already net of the basic rate of tax. So the yield on the FTSE 100 is over 40% higher than the five-year fixed rate cash yield, post basic rate of tax.

However, unlike the fixed return on five-year fixed rate cash deposits, the eventual return on FTSE 100 or share investment is determined by changes to the dividends payable and also by changes in the share prices. You can use the unique features of ShareMaestro to stress-test the projected returns against worst-case scenarios. These tests can include both changes to be assessed input values for the FTSE 100/share and also changes in the projected economic environment, as described in the next section.

Example

A basic-rate taxpayer has £10,000 for long-term investment. The best 5-year fixed-rate cash investment provides an annual post-tax return of 2.56% (see above).

He considers alternatively investing in a FTSE 100 exchange-trade fund (ETF). The current ShareMaestro projected post-tax annual return for a 5-year FTSE 100 ETF investment is 6.3%. From that return must be deducted annual management fees of around 0.3%. So the net annual return becomes 6.0%. This projected annual return is over double that of the cash investment.

The ShareMaestro projected return currently assumes an annual real dividend growth rate of 0%. On the face of it, the FTSE 100 investment wins hands down over the cash investment. But the investor wishes to evaluate the potential downside risk of the FTSE 100 investment. Using ShareMaestro's exclusive what-if functionality, he makes the following editing changes to the FTSE 100 valuation:

- Increase projected end-period inflation by 2%
- Increase projected average-period inflation by 1%
- Increase the projected return of 5-year gilts by 2%
- Reduce the real dividend growth rate by 1% to -1.0% annually.

The combined effect of these changes is to reduce the projected annual return to 3.8%. After deducting 0.3% for annual management charges, the annual return becomes 3.5%. As this return is still 37% higher than the return on the cash investment, the investor decides to invest in the FTSE 100. The FTSE 100 investment also has a further advantage over the cash investment – it can be cashed in at any time and so sizeable profits can be seized when they occur.

This example assumes that no capital gains tax is payable on the FTSE 100 investment. This tax is not payable for investments held in SIPP and ISAs; there is also an annual tax-free capital gains allowance for investments held outside these wrappers. If you are liable to capital gains tax, you can input your capital gains tax rate to find out the impact on the projected returns, as described in the previous section.

TESTING THE IMPACT OF CHANGES TO THE ECONOMIC ENVIRONMENT

Uniquely ShareMaestro uses projected inflation rates and actual five-year gilt redemption yields in calculating the intrinsic values of the FTSE 100 and individual shares. The projected inflation rates are produced daily by the Bank of England according to market expectations, as shown from the trading prices of securities which are sensitive to inflation rates. Of course both inflation rates and gilt yields can change. You can test the impact of possible changes by overriding values of the relevant factors shown in the common input data section of the spreadsheet:

- **Average inflation rate over the five-year period** (cell B26)
- **Projected inflation rate at the end of the five-year period** (cell B28)
- **Gross annual redemption yield on five-year gilts** (cell B29)

If you change the projected average inflation rate by, say, 1%, you would normally change the projected end-period inflation rate by double this amount i.e. by 2%.

In normal circumstances you would also increase the redemption yield on five-year gilts if you increase the projected inflation rates. However, at the time of writing, the Bank of England has kept interest rates artificially low through quantitative easing (QE). So in the short term it is quite likely that rates will increase, when quantitative easing is ceased, without inflation increasing. To counterbalance this, the dividend growth rates may increase when quantitative easing has ceased because the Bank of England has stated that it will not end quantitative easing and increase interest rates until the prolonged recession is fully over.

Example:

Core Valuation of FTSE 100 on 29th November 2013 (market price 6650.6)

Input values:	%
FTSE 100 Dividend Yield	3.52
Average Inflation Rate for period	2.80
End-period inflation rate	3.21
Redemption Yield 5-year Gilts	1.62
Real Dividend Growth Rate p.a. (assessed)	0.00
Risk Premium % (default)	10.00

These input values produce an intrinsic value for the FTSE 100 of 7856.4.

You think that 5-year gilt rates will increase to 5.0% when quantitative easing stops, but you think inflation rates will stay as projected. So you change the gilt rate value in cell B29 to 5.0. This would reduce the current intrinsic value of the FTSE 100 by 14.1% 6670.7. This is a sharp reduction in value. That is why markets have been so nervous about the end of QE. However you also think that the FTSE 100 real dividend growth rate will have reverted to its long-term average of 2% p.a. So you also change the value in cell AT65 to 2.0. This changes the FTSE 100 intrinsic value to 7365.

REVIEWING AND FINE-TUNING SHARE VALUATIONS

You should never take ShareMaestro share valuations at face value. Sometimes specific share valuations are “false” because, for example, consensus broker forecasts have not caught up with a rapid deterioration in the condition of the company. After preparing a shortlist of shares in which you are interested, you should undertake the following checks to ensure that the projected dividend flow will not be under threat. Only after making these checks should you make any investment decisions. Ideally you should also read the financial pages of one of the broadsheets daily. That way you will pick up news about companies in trouble or companies with exciting prospects.

PROFIT WARNINGS

Avoid companies which have issued a profit warning in the last year. This is a clear danger signal. Frequently all the bad news does not come out at once as company management is too embarrassed to reveal the full horror stories all at once. Further profit warnings generally follow, with a negative impact on the share price.

DIVIDEND CUTS

Avoid companies which have cut their dividend in the last year or have paid their dividends in shares rather than cash. This is a clear sign that the company will struggle to pay dividends in the future.

RECENT CHANGE OF KEY MANAGERS

Be very wary of companies which have recently suffered the loss of key managers such as the Chairperson, Chief Executive or the Finance Director. Unless these managers have been genuinely headhunted for a new position, such changes are often a sign that all is not well with the company. Whilst new management may transform the fortunes of the company, this is a gamble. Managers who are successful with one company are not always successful in a new environment.

TAKEOVERS

Takeovers do not generally deliver value for shareholders. Normally the company will have to pay a premium price to take over another company. Furthermore the benefits of integration are generally exaggerated to conceal what is often a vanity project for the Chief Executive or Chairperson. A prime example was the takeover of ABN Amro by the Royal Bank of Scotland.

RIGHTS ISSUES

Rights issues are generally not good news for shareholders. They indicate that a company has not been able to generate sufficient cash flow to fund expansion or to cover its ongoing operating costs. Although the discounted share price offered to shareholders appears superficially attractive, the benefits are illusory since the increased number of shares in issue will dilute the dividend pot and hence the share price, unless the money raised by the rights issue is very effectively used to increase the organic profitability of the company.

LOOK FOR BAD NEWS

Review news stories affecting the company over the last year for any bad news which may affect the profitability of the company. Such bad news can come in a variety of forms, including for example loss of key contracts, government action which will restrict either the markets/revenue of the company or the emergence of a major new competitor.

CHECK THE CURRENT AND PROSPECTIVE DIVIDENDS

ShareMaestro is a dividend-based valuation system. You should perform a number of checks to ensure that, as far as possible, the projected dividend flow is realistic:

- **Check that the current dividend and dividend yield is correct.** The current dividend and dividend yield is that paid over the last year. Sometimes recent events will have overtaken this dividend. For example, in 2010, when BP ceased paying a quarterly dividend as a result of the Gulf of Mexico disaster, it was still quoted as having a current dividend because dividends paid in quarters before the suspension of the dividend were still included in the calculation.

- **Investigate a very high dividend yield.** If a company's dividend yield is, say, double that of the FTSE 100, it is generally a sign that the market expects the dividend to be cut or, at the very least, remain static in the future. If the consensus broker forecasts project increasing dividends, you should be very cautious. For example, at the beginning of March 2009, a FTSE 100 insurance company was valued at 520% of the current market price. Inspection of the data underlying this valuation revealed that the share not only had a dividend yield of 18.8% but the broker consensus forecast expected the dividend to increase by 11% in the next 3 years and to be covered a generous 2.6 times in 3 years time. Normally, when a dividend yield is over triple the market average, this indicates prospective bad news for the company e.g. that the dividend will be cut or that profits will plunge or both. Either the share really is incredibly good value or the market knows something which has not yet been reflected in the consensus broker forecasts. You need to conduct further research to discover the truth before making any investment. 2 days after the valuation, this insurance company cut its dividend to zero in the light of some poor investment decisions. So the dividend yield instantly became 0 % and the broker forecasts became meaningless.

- **Check the current dividend cover.** The dividend cover is calculated by dividing the earnings per share (EPS) by the dividend per share. A ratio below 1.5 is normally a sign that the current dividend is in danger unless future earnings increase substantially.

- **Check the projected dividend growth.** If the dividend is forecast to drop from the current year in subsequent years, this is a cause for concern. Ideally you should be looking for an unbroken upward trend in dividend growth, not just in the forecast but also for the past five years. ShareScope provides the details of each broker's contribution to the consensus forecast plus the date each forecast was made. There should normally be at least three brokers contributing to the forecast. More weight should be attached to the most recent forecasts, as they are more likely to take into account the most recent developments. It is also worth checking that the figure given is a consensus figure for each year the forecast does actually equate to the consensus. Sometimes there are calculation errors. Finally, be wary of a wide variation in forecasts between the brokers, unless recent events have changed the landscape since the forecast was made. Check the detail underpinning the consensus broker forecasts, if possible. Within ShareScope, select the share, press the shift key and then the # key and the individual broker forecasts will appear. With the bottom bar, you can scroll through the figures for each year:

    - Do the consensus figures accurately represent the individual forecasts?

    - What is the latest dated forecast? Is that significantly different from the earlier dated forecasts. If so, is there any recent news affecting the company which has changed the forecast (do a web search on the company name or use other sources to view news on the company).

    - Do several different forecasts contribute to the consensus or is it just drawn from one or two brokers?

    - Is there a step change in the forecasts for future earnings and dividends compared with the last year's figures? If so, try and find out why - (e.g. were there exceptional items artificially inflating or deflating last year's figures or are

there fundamental reasons explaining the anticipated step change in future figures).

- Bear in mind that brokers tend to overestimate the prospective growth rates for earnings and dividends.

HIGH BORROWING

Heavy borrowing can threaten companies, as interest costs eat into earnings. It also increases risk, as costs will sooner or later rise if interest rates rise. A commonly used yardstick is the net gearing ratio. This is calculated from total borrowings less cash divided by total equity (capital and reserves). A net gearing ratio of over 50% is a cause for concern, especially if interest cover is less than 2. Interest cover is profit before interest and tax divided by the interest charge.

CHECK THE CASHFLOW

We suggest that you undertake this check only for shortlisted shares which have passed the other checks, as the cashflow check takes a few minutes for each share since it involves referring to company accounts.

Cash is the lifeblood of the company and a company which does not generate sufficient cash will eventually come to a sticky end. The purpose of the cashflow checks is to ensure that future dividends are not placed in jeopardy by cashflow starvation. It is necessary to check cash rather than earnings since:

- Dividends are paid out of cash not earnings
- Earnings include non-cash items and can be manipulated to present a misleading picture of the state of the company.

Listed companies are required to provide cash flow information in their report and accounts. The information required for the checks below is available from this source except for current market capitalisation, which is available free from the fundamentals section of Digital Look amongst other sources. Checks should be made against the data from the latest published financial year for the company.

Check 1

Check that Net Cashflow from Operating Activities exceeds Operating Profit. Operating Profit is normally reduced by non-cash items such as depreciation and amortisation. If Operating Profit exceeds Net Cashflow from Operating Activities, it is likely that creative accounting has been used.

Check 2

Check that the ratio of total market capitalisation of the company (total stock market worth of the company) divided by the Net Cashflow from Operating Activities does not exceed 10.

Check 3

Check that there is sufficient cash in the company to pay the total annual dividend. Borrowing money to pay dividends, as some companies do, makes no sense and is not the mark of a valuable company. This check involves taking information from the cashflow statement in the report and accounts. There is not total consistency between companies as to where some of the required information appears in the cash flow statement and so you need to be careful where to find it. Some of the costs below may be incorporated in the Cashflow figure and so you need to make sure you do not double-count.

From the total Net Cashflow from Operating Activities deduct the following sums:

- Income Tax paid
- Interest paid
- Depreciation of property, plant and equipment

If the cashflow remaining after these deductions is not sufficient to pay the last total annual dividend (the amount should appear in the cash flow statement), you should be wary about buying the shares, unless you believe the finances of the company will soon be transformed.

Depreciation of property, plant and equipment is a non-cash item but the generator of depreciation – purchase of property plant and equipment – is a cash item and could well be higher than the current annual depreciation figure. However asset purchases can vary significantly in value from year to year; annual depreciation is likely to give a more consistent picture of asset costs for the company.

FTSE 100 EXCHANGE TRADED FUND INVESTMENT STRATEGY

Under this strategy you invest in a FTSE 100 exchange traded fund (ETF), such i-Shares, when the ShareMaestro FTSE 100 valuation reaches 105%. When the valuation falls to 95% or below you switch your investment to a competitive instant-access interest-bearing cash account. You hold your money in cash until the ShareMaestro FTSE 100 valuation next reaches the 105% and then repeat the cycle.

Since 1984 to the end of December 2013, this strategy has delivered a long-term annual return of 9.2% percent, net of ETF charges. This is considerably better than any long-term £ cash return and also better than any FTSE 100 tracker.

The above track record uses ShareMaestro FTSE 100 valuations incorporating the standard default values of 2% per for real dividend growth and 10% for risk premium. You may, if you wish, use the FTSE 100 % valuation shown in the weekly spreadsheet. This uses our best estimate of FTSE 100 real dividend growth over the next five years. To use the 2% long-term real dividend annual growth rate, replace the figure shown in cell AT65 by 2.0 and view the resulting FTSE 100 valuation percentage to market price.

FTSE 250 EXCHANGE TRADED FUND INVESTMENT STRATEGY

You can use the FTSE 100 buy and sell signals to pursue the same strategy as the above FTSE 100 investment strategy, but by investing in a FTSE 250 ETF instead. The ups and downs of the FTSE 250 price closely follow those of the FTSE 100, although the magnitude

of the FTSE 250 price movements has historically been greater. There is at least one FTSE 250 ETF available (i-Shares).

Historically the upward price trend of the FTSE 250 has been a lot stronger than that of the FTSE 100. So, if this trend continues in the future, you should make much greater investment gains by following a FTSE 250 ETF strategy. Between the start of 1994 and the end of 2013, the price of the FTSE 250 increased by 314%, whereas the price of the FTSE 100 increased by 98%. In other words the capital growth of the FTSE 250 was triple that of the FTSE 100. Both these increases exclude the benefit of reinvested dividends.

FTSE 100 SPREAD BET INVESTMENT STRATEGY

Outstanding growth

This outstandingly successful strategy has delivered a compound annual return of 28.8% From the start of 1984 to December 2013. £1000 invested in 1984 would have grown to over £1,977,085 by 20 December 2013. These returns are considerably higher than those achieved by any UK equity fund over the same periods. Furthermore all the capital growth would be free of capital gains tax, under current UK tax rules. This track record has been based on the recreation of spread bet prices when actual spread bet prices have not been available. Full details of all the elements behind the track record are available from http://www.sharemaestro.co.uk/ShareMaestroFTSE 100SpreadBetStrategynew.shtml .

This strategy powerfully combines the accuracy of ShareMaestro FTSE 100 valuations with the gearing of FTSE 100 spread bets. To put it in a nutshell, you only buy a FTSE 100 spread bet contract when it is probable that the price will increase. This increase is magnified by the gearing of the spread bet contract. At times when the ShareMaestro FTSE 100 valuation shows the FTSE 100 price to be poor value, you keep all your money in interest-earning cash.

The strategy uses a 27.5% stop-loss so that a FTSE 100 spread bet contract is sold when the contract price has fallen to a level which represents a 27.5% loss on your total investment. A gearing multiple of 7 is used.

How spreads bet work

The FTSE100 spread bet prices are based on FTSE 100 futures contracts expiring on set dates in the future. There is a spread bet buy price and a lower spread bet sell price. The difference between the two prices (around 0.15%) is the spread, representing the profit margin of the spread-betting firm. You bet your chosen number of £s for every point movement in the spread bet contract price. You can set a stop-loss so that your position is automatically closed out when the sell price reaches a certain level.

For example, at the start of the year, you bet £3 per point when the FTSE 100 March contract buy price is 6500 and the sell price is 6490. Two months later the March sell price has increased by 100 points to 6590. You make a profit of £300 (£3 x 100). Conversely, if the March sell price has fallen to 6390, you would have lost £300.

Executing the strategy in detail (27.5% stop-loss)

The strategy employs quarterly spread bet FTSE 100 futures contracts expiring on the third Friday of March, June, September and December.

1. Decide the overall amount you wish to invest and place this in a competitive high-interest, instant-access cash account (when this fund exceeds £85,000, you should have multiple accounts up to the £85,000 FSA compensation limit to minimise your risk of default by the deposit-taker).

2. When the ShareMaestro FTSE 100 valuation reaches 105% (or is currently above 105% if you are starting the strategy), transfer 27.5% of this fund to your spread betting account and buy a quarterly FTSE 100 spread bet futures contract (if the amount to transfer is in excess of your cash account's same-day transfer limit, you will need to transfer these funds in advance when the valuation is approaching 105 %). If you wish to maximise the interest you earn on your cash account and are prepared to make frequent cash transfers to your spread betting account, you could initially transfer a lower sum to your spread betting account and subsequently make cash transfers to cover any increased margin requirements. The minimum margin requirements required by spread betting firms are low but you also have to cover any accumulating losses on the contract. This potential bonus interest has not been taken into account in the track record for the strategy.

3. It is essential that you understand and comply with the margin requirements of your chosen spread-betting firm to ensure that your position is not automatically closed out before the 27.5% loss level is reached. You may need to maintain a small buffer on your account in addition to the cash required to cover any accumulating losses.

4. Buy sufficient £s per point so that the gearing on your total fund (including the 72.5% held in cash) is approximately 7 times the % movement of the FTSE 100 contract price. This means that, if the contract price changes by 1%, the value of your total fund will change by approximately 7%, up or down. The expiry date of the contract should be at least two calendar months away but, subject to this proviso, the shortest duration available from the quarterly spread bet range. So, for example, if the trade date were 20 February, you would buy a contract with the June expiry date. Determine the £ per point to invest through the following formula: (7 x your total fund) ÷ (contract buy price). So, for example, if your total fund, including the 72.5% retained on your instant-access cash account, is £5000 and the FTSE 100 contract buy price is 6000, the calculation of £ per point is (7 x £5000) ÷ (6000) = £35000 ÷ 6000 = £5.83. Most spread betting firms will allow you to bet in pennies as well as £ per point but there will be a minimum bet size e.g. £3 per point. Rounding the bet to the nearest £ will increase or reduce the gearing accordingly.

5. Place a stop-loss price on your contract so that your contract is sold at a price which will limit your loss to 27.5% of your overall fund (including the cash on your instant-access account). This stop-loss price is calculated as follows: (Contract buy price – (27.5% of your overall fund ÷ £ per point)). So for example, if your overall fund is £5000, you want to limit your maximum loss to 27.5% of this fund i.e. £1375. Assume you are betting £5.83 per point and the contract buy price is 6000. The stop-loss contract price would be calculated as follows: (6000 – (1375 ÷ 5.83)) = 6000 – 235.85 = 5764.15. This would be rounded up to 5765. The stop-loss used is a standard rather than trailing stop-loss (which measures the % loss against the highest contract price achieved since the contract was bought).

6. In fast markets, spread betting firms will not guarantee to execute your chosen stop-loss price if you use a standard stop-loss. However, for a small fee (around £3 per £ per point bet), you can place a guaranteed a stop-loss, which will guarantee execution of your chosen stop-loss price. Guaranteed stop-loss costs have not been

included in the track record of the strategy. Between 8am and 9am UK time trade prices can be volatile and your trade could be prematurely stopped. If you wish to avoid this risk, adjust your stop losses overnight to 30%, if your contract is approaching the 27.5% stop-loss trigger, and then reinstate the 27.5% stop soon after 9am as possible.

7. Unless the trade is stopped out, hold the position for two calendar months. So, if you bought a contract on 20th May, you would hold until 20th July or the first trading day thereafter. Then sell on the earlier of:

    a. the day when the valuation falls below 105% (when the valuation is falling close to 105%, you should monitor valuations daily so that you can sell your position as soon as the valuation falls below 105%)

    b. the day before contract expiry

8. If the valuation remains above 105% on the day of contract expiry, buy a new contract following the same principles from step 2 onwards but adjust your cash fund for any profit or loss that has been made on the contract. So, for example, if your total fund was £5000 when you bought the contract and you made a profit, including interest, of £1000 from the contract, your new fund would be £6000 and 27.5% of this i.e. £1650 would be allocated to a potential maximum loss on your next spread bet contract.

9. If the trade has been stopped out or sold before contract expiry, wait until the contract expiry date before buying a new contract, following the above principles from step 2 onwards, if the ShareMaestro FTSE 100 valuation is above 105%.

10. Try and buy and sell contracts near to, but before, the end of the LSE UK Equity trading day (16.30pm UK time).

11. When, as a result of the ShareMaestro FTSE 100 valuations, you do not hold a spread bet position, hold all of your cash in the instant-access cash account(s).

12. In times of market freefall (very rare), apply the detailed rules as described below.

When the market is in freefall

For the purposes of this strategy, a FTSE 100 freefall is defined as the point when the FTSE 100 closing price crashes more than 10% below the price at which the 100-day simple moving average of closing prices has fallen below the 200-day simple moving average of closing prices. These conditions happen very rarely and have occurred only three times between 1984 and the end of 2013. Free information services such as Digital Look provide facilities to calculate and graph moving averages.

When the market has fallen to the above freefall point, you need to take cover until the storm subsides. Sell any FTSE 100 spread bet position irrespective of the FTSE 100 valuation. Only take out a new FTSE 100 spread bet position when both:

- The FTSE 100 100-day moving average has risen above the 200-day moving average *and*

- the FTSE 100 valuation is above 105%

Using ShareMaestro FTSE 100 valuations

To maintain integrity in calculating the track record for this strategy, the long-term average of 2% annual real dividend growth has been used. The weekly data file may use a best estimate for the prospective five-year real dividend growth rate which differs from 2%. If clients wish to use the long-term rate of 2% or their own choice of growth rate, they can easily recalculate the valuation by inputting this figure in the Real Dividend Growth Rate % pa input field instead of the rate used in the weekly data file (if this is different).

It is easy to determine what price the FTSE 100 needs to reach, between the weekly valuations, to hit a critical valuation point for this strategy. Cell BH65 of the weekly valuation spreadsheet shows the price at which the FTSE 100 would reach a valuation of 105%.

Risk warning

This is a high-risk, potentially high-reward strategy and is not for the fainthearted. You should take appropriate professional advice before making any investment. Future performance may not reflect past performance and ShareMaestro Limited takes no responsibility for any losses which you may incur. ShareMaestro valuations do not constitute investment advice from ShareMaestro Limited.

This strategy is designed for long-term investment (at least 5 years), as high losses can be incurred in the short term. On three occasions since 1984, two stop-losses have occurred in succession. It would be little comfort to a risk-averse short-term investor, who bailed out after the second stop-loss (by which time the total fund will have fallen in value by nearly 48%), that the losses were more than recovered subsequently. You may also be fully invested in cash for a long period, if the FTSE 100 remains overpriced for a long period.

The gearing on the total investment which this strategy uses is approximately 7 times the % contract price movement. The contract price is linked to the FTSE 100 price, with an adjustment for interest costs avoided and dividend income foregone compared with investing in the cash FTSE 100 (e.g. through an ETF). This means that any percentage price movement in the FTSE 100 spread bet contract will be magnified approximately 7 times in your total investment, up or down. It only needs a fall in the contract sale price by 3.93% compared with your contract buy price, for the trade to be stopped out and the loss on your total investment to be 27.5%. That is why quite a few trades in the track record have been stopped out; on the other hand the gains on the profitable trades have been correspondingly magnified.

If you want to reduce your short-term risk at the expense of reducing the profit on profitable trades, you can reduce the gearing which you employ by reducing the number of £ per point which you bet. Replace 7 by your chosen level of gearing in the formula to calculate the number of £s per point, as described in step 4 of “Executing the strategy in detail” above. So, if you wanted to reduce your gearing to 4 and the total investment amount and contract buy price were the same as in step 4, you would calculate the £ per point as follows: (4 x £5000) ÷ 6000 = £3.33. Set your stop-loss as described in step 5. Historically any gearing level of 1.5 upwards has achieved better performance than remaining fully invested in the cash FTSE 100 at all times.

You should fully familiarise yourself with the procedures and policies operated by your chosen spread betting firm before taking out any spread bet contracts. You are also exposed to risk of default by your spread betting firm. You should therefore be alert for any danger signs regarding the viability of the firm and, when your positions become sizeable, you may wish to spread your positions around a number of firms.

RUNNING AN EFFECTIVE SHARE PORTFOLIO

The following steps will help you run an effective share portfolio with the help of ShareMaestro.

1. **Determine the total amount which you wish to invest.** Only invest in the stock market money which you do not need for day-to-day living expenses. You should have cash savings sufficient to cover at least two years of living expenses before investing in shares. Investing in the stock market involves risk. Although ShareMaestro helps mitigate the risks, it cannot eliminate them.

2. **Time your entry to the market**. Invest only when the FTSE 100 valuation is above 105%. If the market falls as a whole, even good-value shares may be dragged down.

3. **Prepare a shortlist of potential shares to buy.**

    - You should be aim to run a portfolio of between 10 and 15 shares, spread across at least 5 industrial sectors.

    - Potential shares should have a ShareMaestro percentage valuation to market price of at least 115%. You could, for example, shortlist the best value shares from the weekly ShareMaestro FTSE All-share valuation spreadsheet.

4. **Select the shares to buy.** You should do this by following the steps recommended in this section "Reviewing and fine-tuning share valuations". This process will eliminate quite a few candidate shares. You should, initially, invest roughly equal amounts in each share in your portfolio.

5. **Limit risk.** Place a trailing stop-loss on each share purchased. This ensures that you lock in any gains and limit any losses. The stop loss can be for a set amount (say 25p) or a set percentage of the highest price achieved since you bought the share. So, e.g., if you buy a share for £1.00 and you put a trailing stop loss of 25p on the share, the share will be sold if it falls more than 25p below the highest price achieved since you bought it. If, therefore, the price increases to a peak of £2.00, it will be sold, if it falls below £1.85. If, however, the share falls steadily as soon as you have bought it, it will be sold as soon as the price falls below 75p. The level of stop-loss set depends on your attitude to risk. An initial low stop-loss percentage (see 12%) will limit the amount you can lose on any share but it could also limit potential gains through shares being sold too early. If you have more appetite for risk, you could set an initial stop-loss percentage of between 20% and 25%.

6. **Review progress.** Monitor the portfolio at least weekly and sell any shares for which the trailing stop-loss value is triggered or whose ShareMaestro valuation falls below

95%. Renew any trailing stop-loss positions before they expire. Also keep abreast of any news which might affect the company share prices. You do not have to follow the strategy robotically. For example, by using ShareMaestro's powerful what-if functionality, you may decide to take early action on an individual share. You may also take your own view about the impact of major news affecting a company. E.g., if you believe that a takeover bid is going to be successful and the bid price is higher than the market price, you may decide to hold the share until the bid price is received.

7. **Replace any sold shares with new shares which meet the original selection criteria.** Providing the ShareMaestro FTSE 100 valuation remains above 105%. If not, retain in cash the proceeds of sale until the valuation reaches 105%.

8. **Consider selling the whole portfolio if the FTSE 100 value falls below 95% or when the** FTSE 100 is in freefall. If the FTSE 100 falls significantly, most UK shares will follow suit.

9. **Repeat the cycle from step 2 onwards when the FTSE 100 valuation next reaches 105% or when the freefall re-entry signal occurs.**

Potential advantages of this strategy

- you are more likely to avoid capital loss during market crashes
- you re-enter the market only when it appears to be good value again
- you earn interest on cash when you are out of the market
- you invest in individual shares which you have assessed as good value
- the upside potential on an individual share is unlimited, providing both the market and the share do not become overvalued
- you should lock in much of the profit on a star performer in your portfolio, even if the share falls significantly from its peak
- you can limit the loss on an individual share to a maximum of your chosen stop-loss percentage (excluding dealing costs)
- you minimize the risk on the overall portfolio by diversifying the investment over 10 - 15 shares in different industrial sectors

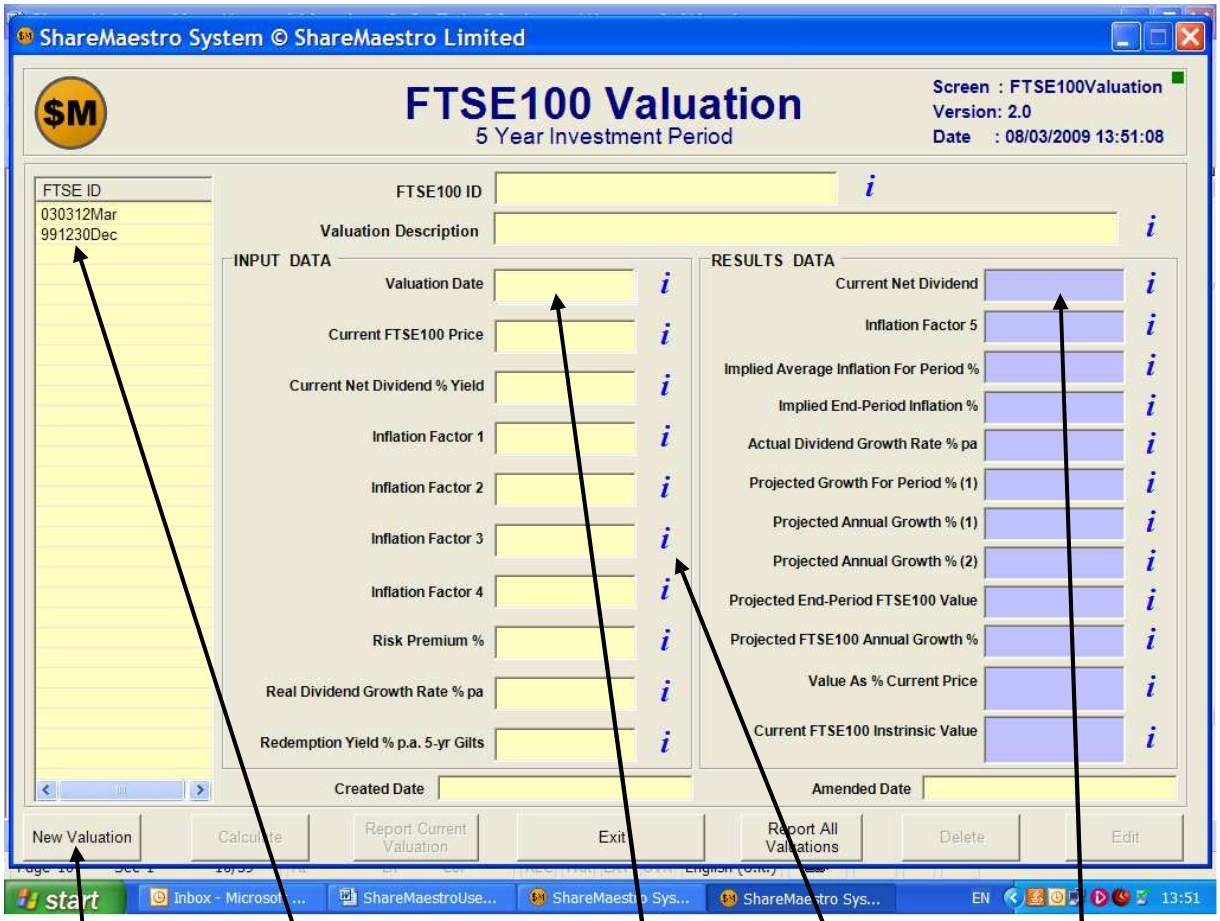
USING THE SHAREMAESTRO SOFTWARE

The new weekly FTSE All-Share spreadsheet provides valuations for the FTSE 100 and for all shares which have sufficient data to produce the valuations. You can also edit these valuations.

Although you can still use this spreadsheet to generate bulk valuations in the ShareMaestro software, you only need to use this software if you wish to perform single manual valuations of the FTSE 100 or of an individual share or you are a ShareScope client and wish to perform a bulk valuation for a customised group of shares.

SINGLE MANUAL VALUATION OF THE FTSE 100

Click on the "FTSE 100 Valuation" box and you will be presented with the following screen:



Files of previous valuations

The fields in this column are for input data

The fields in this column display results

Click this box to do a new valuation

Click on the *"i"* buttons to display information about each field for input data and for results

You can create a new valuation. You can also edit an existing valuation and recalculate to get a revised valuation.

Click on the "*i*" buttons for each field to get information about the definition and source for each data field. The displayed "*i*" box for each input field also provides information about the acceptable value ranges for each input item. If you input values outside these ranges, an error message will be displayed.

INPUTTING DATA

- Click on the "New Valuation" button. This activates the input screen and populates the "Risk Premium %" field with the default input value of 10%. This default value can be overridden (see below).

- The input fields should be completed in sequence. The details and sources for each input field are shown in the next section.

- If you use the default input values for the Risk Premium, you only need to input seven data items to produce a FTSE 100 valuation. These data items are available from readily accessible sources (see below).

Input Fields in order of input

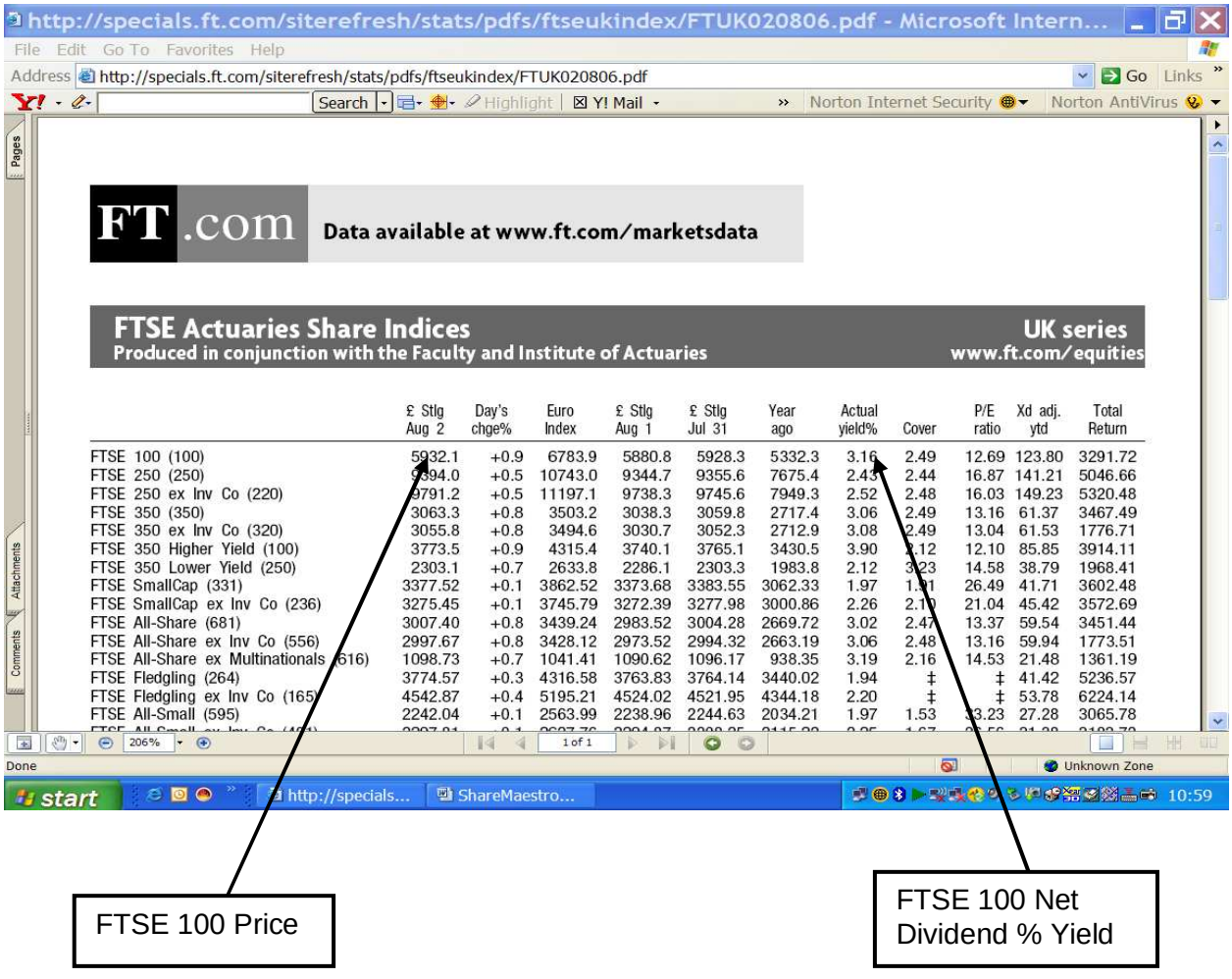
Input Field Label	*Source/Description*
FTSE 100 ID	Your choice of file name for the valuation.
FTSE 100 Description	Any information which you wish to attach to the valuation – up to 35 characters. This field must be completed to save your valuation.
Valuation Date	The date of the data on which the valuation is based
Current FTSE 100 price	The current FTSE 100 price is available from the Financial Times and other broadsheets. Also available from websites such as http://markets.ft.com/ft/markets/researchArchive.asp. Select the Equities category and the FTSE Actuaries Indices –UK series report for the relevant date. - see Web Sources below
Current Net Dividend % Yield	Annual % pa effective dividend yield on the FTSE 100 index, net of basic rate tax. Dividend yields are normally quoted, net of basic rate tax, in the FT or the financial pages of any broadsheets. The Current Net Dividend % Yield on the FTSE 100 is available from the Financial Times newspaper and other broadsheets and from http://markets.ft.com/ft/markets/researchArchive.asp
Inflation Factor 1	See Using Bank of England market-implied inflation rates.
Inflation Factor 2	See Using Bank of England market-implied inflation rates.
Inflation Factor 3	Reserved for possible future use. Leave this field blank.
Inflation Factor 4	Reserved for possible future use. Leave this field blank.
Risk Premium %	The Risk Premium compensates for the greater risk of holding equities than gilts. ShareMaestro uses the Risk Premium to reduce the valuation of the FTSE 100 or individual share. The valuation, pre Risk Premium, is multiplied by a fraction, of which 100% is the numerator and (100% + Risk Premium) is the denominator. The premium will be higher for individual shares than the default 10% for the FTSE 100, where there is less risk through the diversification of holding many shares. For the FTSE 100 the default risk premium of 10% has been based on past experience. This can be overridden if you believe that a different figure is more appropriate for a specific period (e.g. increase it in times of extreme uncertainty).
Real Dividend Growth Rate % p.a.	The Real Dividend Growth Rate % p.a. is the projected underlying annual dividend growth rate excluding inflation. In recent years this has averaged around 2% p.a. for the FTSE 100 but is unlikely to average as much as that for the foreseeable future, given the likely depth and duration of the recession. You should enter your chosen value. On 21 March 2009, The Daily Telegraph said that UK dividends were forecast to be cut by 30% in the coming year. Even assuming that they grow by 2% p.a. real, thereafter, this implies a compound negative real growth rate of 5.4% p.a. for the next 5 years. By Oct 09 this had reduced to -2.4% p.a. because of reductions which have already occurred.
Redemption Yield % p.a. 5-yr Gilts (For Interest Rates)	Gross pre-tax redemption yield on non-index-linked gilts redeemable in 5 years. Listed in the Financial times under FTSE UK GILTS INDICES-Yield Indices- 5 years. Also available from: http://markets.ft.com/ft/markets/researchArchive.asp. Select the Bonds and Rates category and the FTSE UK Gilts Indices report.

Web Sources

Current FTSE 100 price and Current FTSE 100 Net Dividend % Yield

These are available from http://markets.ft.com/ft/markets/researchArchive.asp

Information is available free but you may have to register with ft.com. Select the Equities category and the FTSE Actuaries Share Indices – UK series report. This link will provide a list of the PDF files for the most recent dates. Click on the most recent date and the following type of file will be downloaded. This is the same information which appears in the Financial Times newspaper.

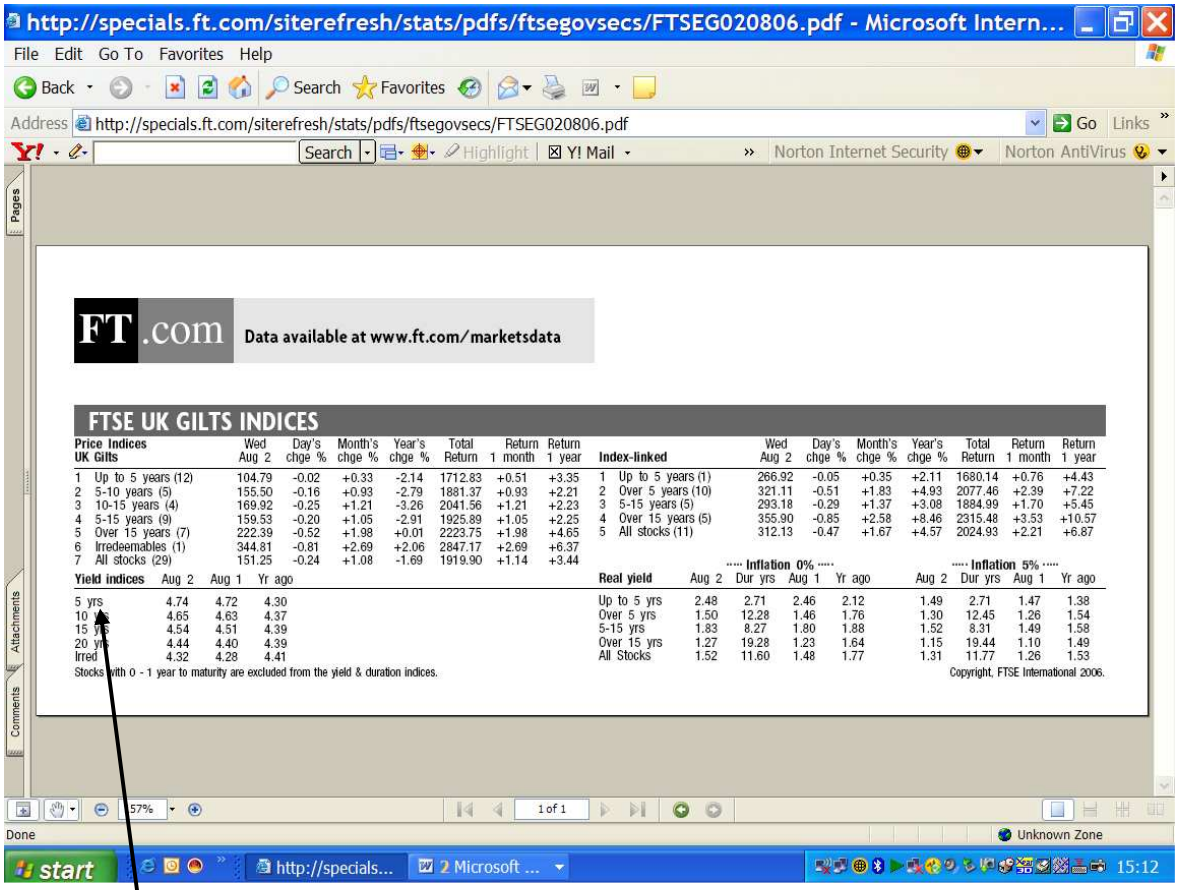


	£ Stlg Aug 2	Day's chge%	Euro Index	£ Stlg Aug 1	£ Stlg Jul 31	Year ago	Actual yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100 (100)	5932.1	+0.9	6783.9	5880.8	5928.3	5332.3	3.16	2.49	12.69	123.80	3291.72
FTSE 250 (250)	9394.0	+0.5	10743.0	9344.7	9355.6	7675.4	2.43	2.44	16.87	141.21	5046.66
FTSE 250 ex Inv Co (220)	9791.2	+0.5	11197.1	9738.3	9745.6	7949.3	2.52	2.48	16.03	149.23	5320.48
FTSE 350 (350)	3063.3	+0.8	3503.2	3038.3	3059.8	2717.4	3.06	2.49	13.16	61.37	3467.49
FTSE 350 ex Inv Co (320)	3055.8	+0.8	3494.6	3030.7	3052.3	2712.9	3.08	2.49	13.04	61.53	1776.71
FTSE 350 Higher Yield (100)	3773.5	+0.9	4315.4	3740.1	3765.1	3430.5	3.90	2.12	12.10	85.85	3914.11
FTSE 350 Lower Yield (250)	2303.1	+0.7	2633.8	2286.1	2303.3	1983.8	2.12	3.23	14.58	38.79	1968.41
FTSE SmallCap (331)	3377.52	+0.1	3862.52	3373.68	3383.55	3062.33	1.97	1.91	26.49	41.71	3602.48
FTSE SmallCap ex Inv Co (236)	3275.45	+0.1	3745.79	3272.39	3277.98	3000.86	2.26	2.19	21.04	45.42	3572.69
FTSE All-Share (681)	3007.40	+0.8	3439.24	2983.52	3004.28	2669.72	3.02	2.47	13.37	59.54	3451.44
FTSE All-Share ex Inv Co (556)	2997.67	+0.8	3428.12	2973.52	2994.32	2663.19	3.06	2.48	13.16	59.94	1773.51
FTSE All-Share ex Multinationals (616)	1098.73	+0.7	1041.41	1090.62	1096.17	938.35	3.19	2.16	14.53	21.48	1361.19
FTSE Fledgling (264)	3774.57	+0.3	4316.58	3763.83	3764.14	3440.02	1.94	‡	‡	41.42	5236.57
FTSE Fledgling ex Inv Co (165)	4542.87	+0.4	5195.21	4524.02	4521.95	4344.18	2.20	‡	‡	53.78	6224.14
FTSE All-Small (595)	2242.04	+0.1	2563.99	2238.96	2244.63	2034.21	1.97	1.53	33.23	27.28	3065.78

Redemption Yield % p.a. 5-yr Gilts

This is available from: http://markets.ft.com/ft/markets/researchArchive.asp (see above). Select the Bonds and Rates category and the FTSE UK Gilts Indices report.

Click on the relevant date to download the PDF which will be in this format (same information as in Financial Times paper):


http://specials.ft.com/siterefresh/stats/pdfs/ftsegovsecs/FTSEG020806.pdf - Microsoft Intern...
FT.com Data available at www.ft.com/marketsdata
FTSE UK GILTS INDICES
Price Indices UK Gilts | Wed Aug 2 | Day's chge % | Month's chge % | Year's chge % | Total Return | Return 1 month | Return 1 year
1 Up to 5 years (12) 104.79 -0.02 +0.33 -2.14 1712.83 +0.51 +3.35
2 5-10 years (5) 155.50 -0.16 +0.93 -2.79 1881.37 +0.93 +2.21
3 10-15 years (4) 169.92 -0.25 +1.21 -3.26 2041.56 +1.21 +2.23
4 5-15 years (9) 159.53 -0.20 +1.05 -2.91 1925.89 +1.05 +2.25
5 Over 15 years (7) 222.39 -0.52 +1.98 +0.01 2223.75 +1.98 +4.65
6 Irredeemables (1) 344.81 -0.81 +2.69 +2.06 2847.17 +2.69 +6.37
7 All stocks (29) 151.25 -0.24 +1.08 -1.69 1919.90 +1.14 +3.44
Index-linked | Wed Aug 2 | Day's chge % | Month's chge % | Year's chge % | Total Return | Return 1 month | Return 1 year
1 Up to 5 years (1) 266.92 -0.05 +0.35 +2.11 1680.14 +0.76 +4.43
2 Over 5 years (10) 321.11 -0.51 +1.83 +4.93 2077.46 +2.39 +7.22
3 5-15 years (5) 293.18 -0.29 +1.37 +3.08 1884.99 +1.70 +5.45
4 Over 15 years (5) 355.90 -0.85 +2.58 +8.46 2315.48 +3.53 +10.57
5 All stocks (11) 312.13 -0.47 +1.67 +4.57 2024.93 +2.21 +6.87
Yield indices | Aug 2 | Aug 1 | Yr ago
5 yrs 4.74 4.72 4.30
10 yrs 4.65 4.63 4.37
15 yrs 4.54 4.51 4.39
20 yrs 4.44 4.40 4.39
Irred 4.32 4.28 4.41
Stocks with 0 - 1 year to maturity are excluded from the yield & duration indices.
Real yield | ····· Inflation 0% ····· Aug 2 | Dur yrs | Aug 1 | Yr ago | ····· Inflation 5% ····· Aug 2 | Dur yrs | Aug 1 | Yr ago
Up to 5 yrs 2.48 2.71 2.46 2.12 1.49 2.71 1.47 1.38
Over 5 yrs 1.50 12.28 1.46 1.76 1.30 12.45 1.26 1.54
5-15 yrs 1.83 8.27 1.80 1.88 1.52 8.31 1.49 1.58
Over 15 yrs 1.27 19.28 1.23 1.64 1.15 19.44 1.10 1.49
All Stocks 1.52 11.60 1.48 1.77 1.31 11.77 1.26 1.53
Copyright, FTSE International 2006.

Redemption Yield % p.a. 5-yr Gilts (e.g. 4.74% for Aug 2)

Using Bank of England market-implied inflation rates.

ShareMaestro uses inflation forecasts amongst other factors to produce valuations. The Bank of England publishes data on the future inflation rates implied by the market.

The Bank of England data can be found at:

www.bankofengland.co.uk/statistics/yieldcurve/index.htm

1. Click on the spreadsheet entitled “implied inflation (government liability)” to download the data.

2. Click on the “4. spot curve” tab.

3. Read across to the column headed “5.00”. Read down to find the figure for the appropriate date. This is the market-implied average inflation rate over the next 5 years. Enter this figure in the Inflation Factor 1 field.

4. Click on the “2. fwd curve” tab.

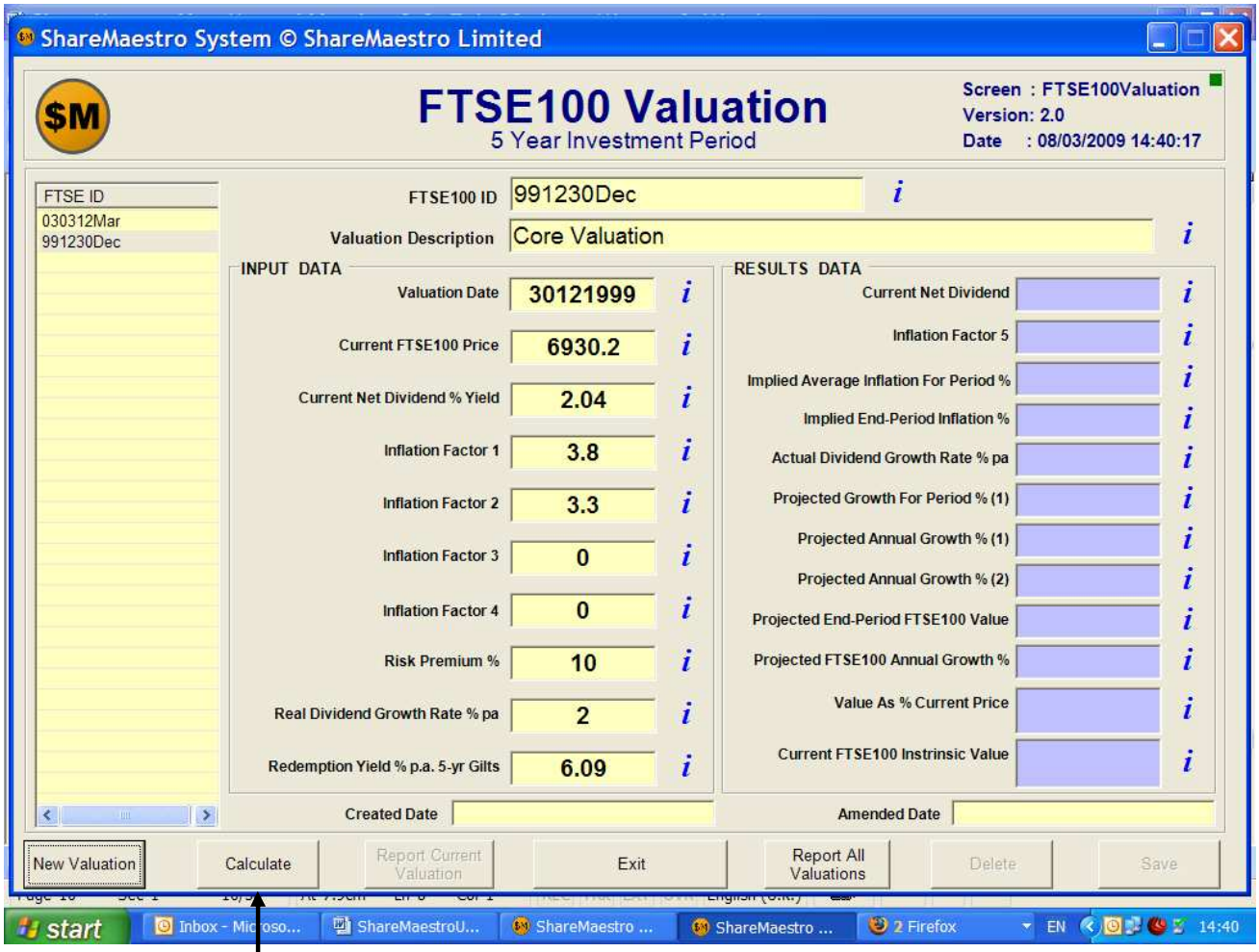
5. Read across to the column headed “5.00”. Read down to find the figure for the appropriate date. This is the market-implied inflation rate in 5 years time. *In the unlikely event that this figure is negative, the market is predicting deflation in 5 years time and you cannot use ShareMaestro to perform FTSE 100 or share valuations (see our Terms and Conditions).* Deduct this figure from double the value of the figure entered as Inflation Factor 1. Enter the resulting value as Inflation Factor 2. For example, if Inflation Factor 1 were 3.06 and the figure from the fwd curve tab were 4.12, you would enter 2.00 in the Inflation Factor 2 field: (2*3.06) – 4.12 = 6.12 - 4.12 = 2.00. If Inflation Factor 1 were 1.45 and the figure from the fwd curve tab were 4.31, you would enter -1.41 (a negative number) in the Inflation Factor 2 field: (2*1.45) – 4.31 = 2.90 – 4.31 = -1.41.

6. When you have run the ShareMaestro valuation, check that the figure in the Results Field, Implied End-Period Inflation %, equates to the value given in the “2 fwd curve” tab. If it does not, there has been a mistake in your calculations.

7. The fields Inflation Factor 3 and Inflation Factor 4 are reserved for possible future use and should be left blank.

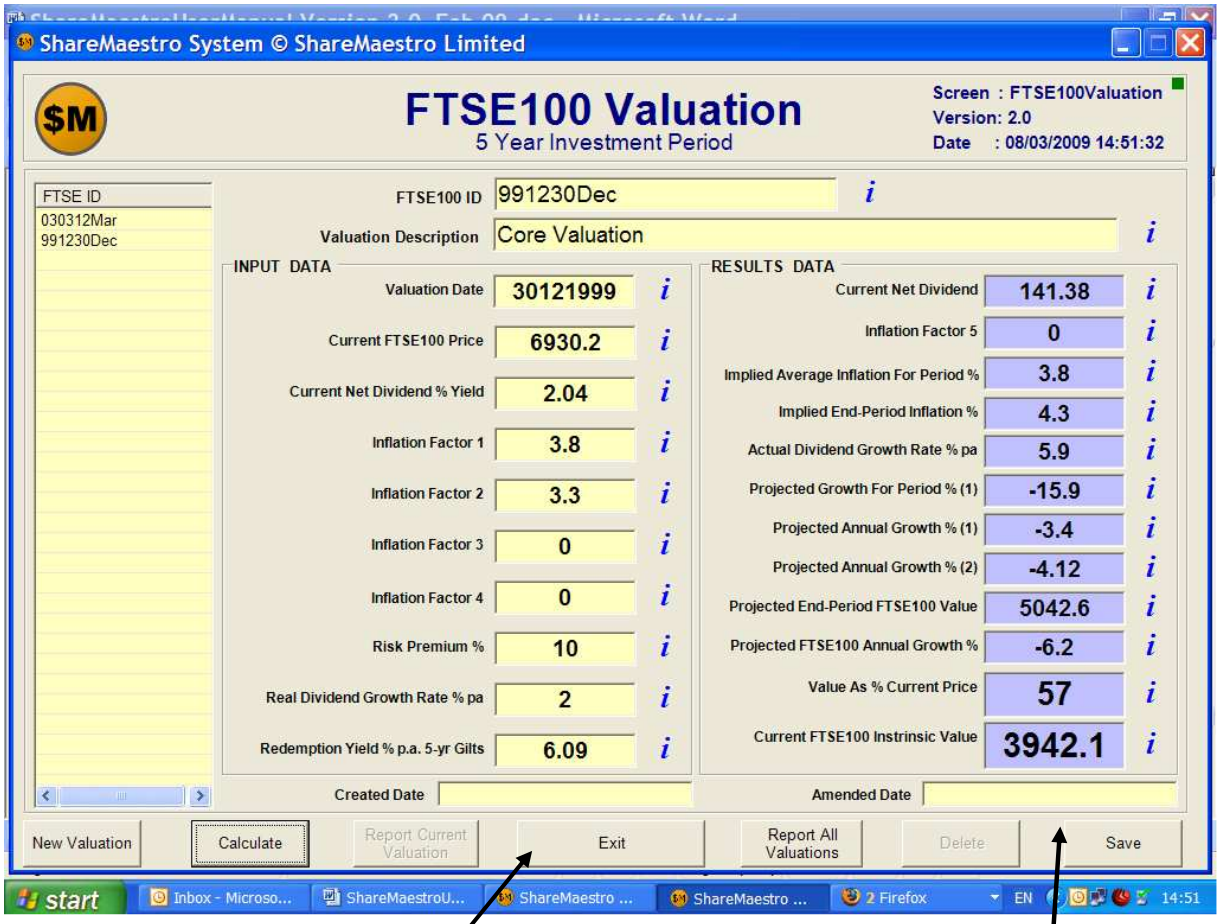
RUNNING THE FTSE 100 VALUATION

After all data fields have been input, the “Calculate” box on the valuation screen will become activated. Here is an example, using data for 30th December 1999:



Click on this button to calculate the FTSE 100 valuation

Click on the “Calculate” button and, after a brief pause, the valuation results will be displayed:



Click to exit without saving valuation

Click to save the valuation under your choice of file name

Results Fields In Order Of Display

Results Field Label	*Description*
Current Net Dividend	The value of the current effective annual dividend for the FTSE 100, including declared dividends but excluding forecast dividends. Calculated from the input values of the Current FTSE 100 Price and the Current Net Dividend % Yield for the FTSE 100.
Inflation Factor 5.	This field is reserved for possible future use.
Implied Average Inflation for Period	Implied average inflation (RPI) over the period. **Do not use the ShareMaestro valuation if the calculated inflation rate is less than .1% and more than 10.50% p.a., as this is outside the range covered by ShareMaestro.**
Implied End Period Inflation %	The projected inflation rate (RPI) at the end of the 5-year investment period. **Do not use the ShareMaestro valuation if this rate is outside the range of +.1% and +10.50% p.a. (see above).**
Actual Dividend Growth Rate % pa	Projected actual annual compound dividend growth rate over the period, derived from the input real % pa compound dividend growth rate over the period and the projected compound annual inflation rate over the period.
Projected Growth for Period % (1)	Projected absolute growth in investment value over the period, including reinvested dividends, taxed at the basic UK dividend tax rate. Not adjusted for inflation. Dividends are declared and paid by UK companies net of this basic rate tax. Excludes any CGT.
Projected Annual Growth % (1)	Compound annual % growth in investment value, on the same basis as the Projected Growth for Period % (1). If the calculated value is zero (e.g. 0.00), it is likely that the calculation is outside the range of the compound interest function and the zero value should be ignored.
Projected Annual Growth % (2)	Compound annual % growth in investment value, assuming reinvested dividends, taxed at the higher rate of tax (32.5%). Not adjusted for inflation. Excludes any CGT. If the calculated value is zero (e.g. 0.00), it is likely that the calculation is outside the range of the compound interest function and the zero value should be ignored.
Projected End-Period FTSE 100 Value	Projected price of the FTSE 100 at the end of the 5-year investment period, based on the input values.
Projected FTSE 100 Annual Growth %	Projected annual compound % growth in the price of the FTSE 100 over the 5-year investment

	period, not adjusted for inflation. If the calculated value is zero (e.g. 0.00), unless the projected end-period FTSE 100 value is virtually identical to the current FTSE 100 price, it is likely that the calculation is outside the range of the compound interest function and the zero value should be ignored.
Value As % Current Price	The current intrinsic ShareMaestro valuation of the FTSE 100, expressed as % of its current price. A figure above 100% indicates that, according to the ShareMaestro valuation from the input values and default values (where applicable), the current market price undervalues the FTSE 100. Correspondingly, a figure lower than 100% indicates that, according to the ShareMaestro valuation from the input values, the current market price overvalues the FTSE 100.
Current FTSE 100 Intrinsic Value	The intrinsic valuation of the FTSE 100 at the date of the input values, as calculated by ShareMaestro according to the input values and default values (where applicable).

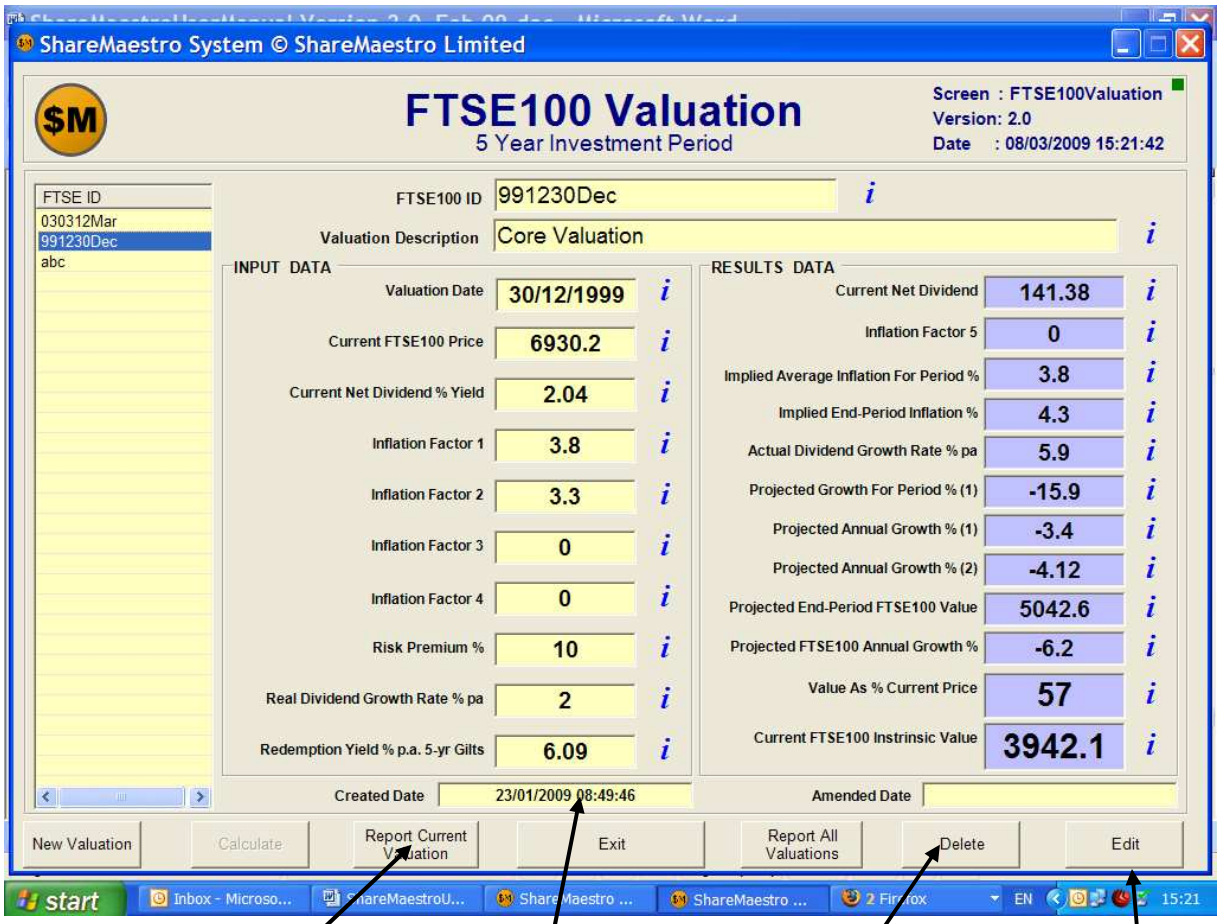
SAVING THE VALUATION

To save the valuation under the same file name as the ID which you selected as the first input value, click on the “Save” box. If the file ID already exists, a Duplicate Valuation screen will appear, asking whether you want to overwrite the previous valuation or add the new valuation in addition to the previous valuation. If you choose the latter, a suffix /001 will be added to the file ID.

The file name will then appear in the list of valuation files to the left of the valuation screen. The valuation screen input and results values will be cleared.

EDITING THE VALUATION

If you click on a saved file name, the following screen format will appear:



Click to produce an Excel report of the valuation.

Shows the date when the valuation was created

Click to delete file entirely

Click to edit valuation. Toggles to “Save”, ready for saving revised valuation after recalculation

If you want to test the effect of changing one or more of the input values of the saved file:

- Click on the "Edit" box, which will then toggle to "Save"
- Amend the relevant input fields
- Click on the "Calculate" box to view the revised valuation resulting from the changes input values

When you have the revised valuation, you can:

- Save it under the original file name, thereby overriding the original valuation
- Save it under a new file name, thereby keeping the original file/valuation
- Discard it by clicking on "New Valuation" or "Exit". By clicking on "Exit" you will exit the FTSE 100 Valuation Screen and return to the ShareMaestro home screen.

By clicking on the "Report Current Valuation" box you can produce an Excel report of the valuation. This can be filed or printed.

SINGLE SHARE MANUAL VALUATION

To use the ShareMaestro Share Valuation system, click on the "Share Valuation" box of the ShareMaestro home screen.

ShareMaestro is suitable for valuing the shares only of UK companies which are currently paying dividends and are expected to continue paying dividends over the next 5 years. ShareMaestro cannot value collective investments such OEICs, unit trusts and investment trusts.

Using the ShareMaestro Share Valuation System is very similar to using the ShareMaestro FTSE 100 Valuation System. The basic functionality of the two systems is the same. The Results fields of the two systems are identical except that "Share" is substituted for "FTSE 100" where appropriate. Other than the difference in input fields, as described below, producing, editing and saving a manual valuation for a share is identical to that of producing a manual valuation for the FTSE 100, as described in the previous section.

Differences Between the Input Fields Of The Share And FTSE 100 Valuation Systems

The differences in the input fields of the Share Valuation System from the FTSE 100 Valuation System are:

- "**Current Share Price**" replaces "**Current FTSE 100 Price**".

- "**Current Net Dividend % Yield**" refers to the Yield on the Share rather than on the FTSE 100. The FTSE 100 Net Dividend % Yield is still required. This is now labelled "**Current FTSE 100 Net Dividend % Yield**" to distinguish it from the share dividend yield. The sources for the Current Share Price and the Current Net Dividend % Yield for the Share are shown in Appendix 1 under Share Valuation Information Sources.

- An extra input field is required: **"Current Net Dividend Yield For Sector"**. This field requires an assessed value – see below. *This field is called "Unadjusted end-period dividend yield" in the weekly share valuation spreadsheet.*

- There is no pre-populated value for **Risk Premium %.** You must determine this value through your own research and judgement on the target share unless you are using the default value method which is shown in the weekly valuation spreadsheet in column AS.

Current Share Price and the Current Net Dividend % Yield

The last closing share price is available from e.g. www.digitallook.com (select Performance Tables under the Investing Channel). This information is also available from most broadsheets. The FT calculation includes any changes to interim dividends and so their calculated dividend yields may vary slightly from other sources.

The following fields involve judgement and have to be assessed:

Current Net Dividend Yield For Sector % (unadjusted end-period dividend yield)

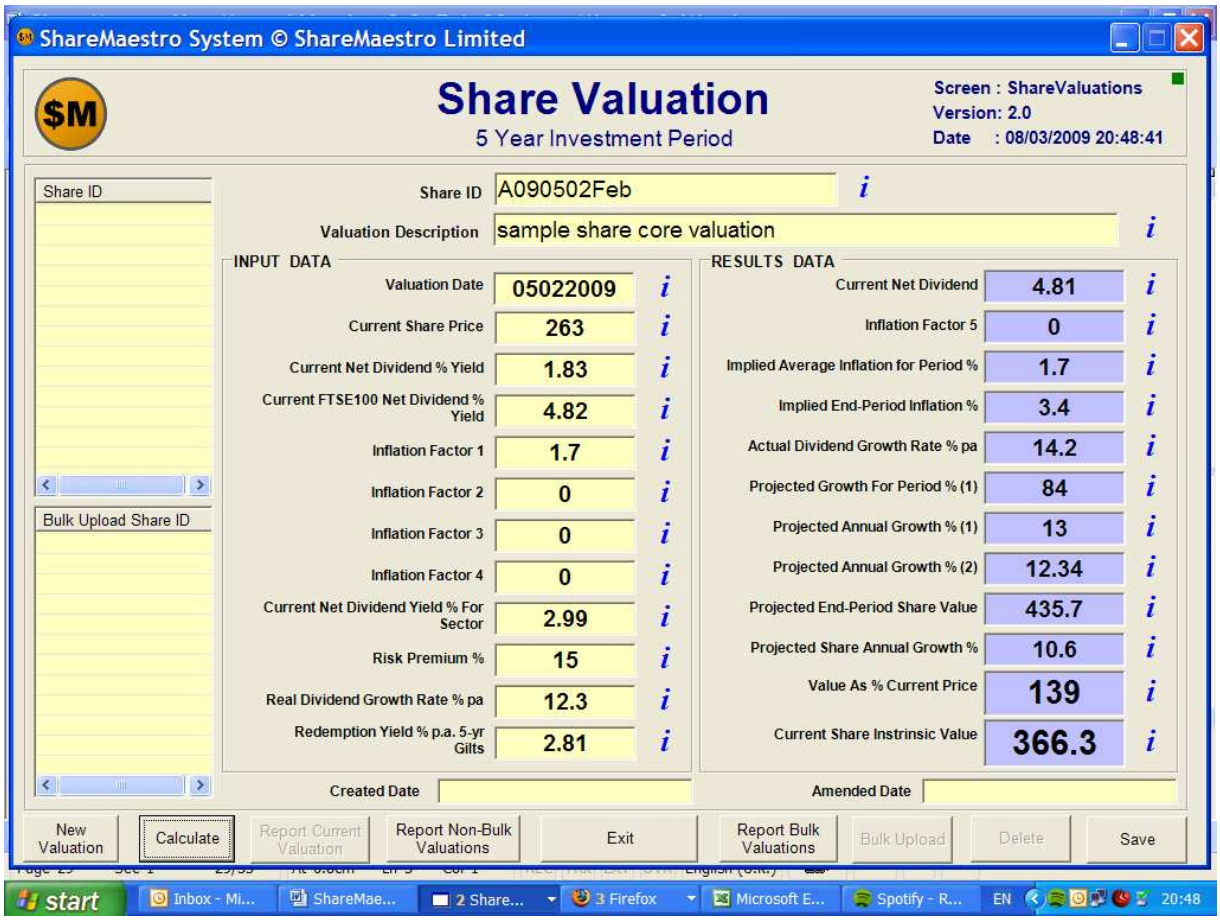
Real Dividend Growth Rate %

Risk Premium %

Methods for you to decide these 3 values are discussed in Editing Assessed Values.

A sample share valuation, including all input and results values, is shown in the next section.

SAMPLE SHARE VALUATION



The valuation of 139 % indicates a strong buy. The projected annual growth, with reinvested dividends taxed at the basic rate of tax and excluding any CGT payable, is 13.0% p.a. This return, which is the actual return rather than the inflation-adjusted return, can be compared with possible returns from alternative investments. This return is not discounted by the Risk Premium. Only the current intrinsic share valuation is discounted by the Risk Premium. Of course, if the market rapidly re-rates the share to meet the current intrinsic valuation, the short-term annual return from the investment will be significantly higher than 13%.

STRESS-TESTING THE SHARE VALUATION

A strong buy signal from ShareMaestro does not necessarily guarantee a successful investment. Sudden changes to the prospects of the company or of the economy could adversely effect the intrinsic valuation. However, by undertaking effective research and by translating the results of the research into a ShareMaestro valuation, you will stack the odds in your favour.

You should also evaluate downside risk by using the powerful what-if capabilities of ShareMaestro.

These are the results of changing individually the following assumptions from the Core Valuation of the share (core valuation of 366 v current price of 263):

	New Intrinsic Value
Halve the Real Dividend % Growth p.a. to 6.2 %	277
Increase Risk Premium to 25%	337
Increase interest rates by 2%	332
Increase end-period inflation by 1% to 4.4% p.a. and average-period inflation by 0.5% to 2.2%	348
All above four changes together	220

None of the changes individually produces a lower intrinsic value for the share than the current price. Even all four changes together, which is an extreme scenario in the short term, produce a valuation which is only 16 % lower than the current price.

So the case for investing in the share at the current price (263) remains pretty strong.

USING THE BULK SHARE VALUATION FUNCTION

The new weekly bulk share valuation spreadsheet now incorporates share valuations and all the related information previously available from the ShareMaestro software. You can also edit the share valuations to use your own assumptions. When you have completed the edit, save the file under a name (different from the original) and location of your choice. You therefore only need to process this spreadsheet with the ShareMaestro bulk valuation software if you wish to use the features of this software.

If you are a ShareScope client (Plus and Pro versions only), you can use the ShareMaestro bulk valuation software to produce bulk valuations of selected share portfolios e.g. all shares in a particular industrial sector or shares on your watchlist.

To use the ShareMaestro bulk valuation software, you must have Microsoft Excel, versions 2003 onwards, installed. Other versions of spreadsheet software will not work.

After running the ShareMaestro bulk valuation, you can output the results (and the ShareMaestro input fields) for each share to an Excel spreadsheet so that you can use standard Excel features such as data sorting and printing. If you want to save the valuations for specific shares, you can save them to the single valuation window. We then suggest that you delete all the share IDs in the bulk valuation window. You can do this by selecting all the shares (select the first ID, scroll down and place the cursor on the last ID while pressing the shift button). It may take up to a minute for all the shares to be highlighted. Then press the Delete button in ShareMaestro. Keeping the bulk valuation window clear will speed up bulk valuations and will avoid confusion from having two or more bulk valuations appearing in the window.

The bulk valuation function is a very powerful facility which allows you to pinpoint the shares which appear to be the best or worst value so that you can investigate them further. You should always check for inconsistencies in the share data which underpin the valuations. This topic is covered in more detail in the section "Reviewing and fine-tuning share valuations".

USING THE WEEKLY PREPOPULATED FTSE ALL-SHARE SPREADSHEET

ShareMaestro clients can download a special prepopulated FTSE All-Share Valuation spreadsheet. Access details are provided with the joining instructions. This file is normally available for the close of the last UK trading day of the week, by noon (UK time) on Saturday. You can use this file to value all shares in the FTSE All-Share index except equity investment instruments, those with no dividends for the latest financial year and those with missing data.

Running the weekly spreadsheet in ShareMaestro

When the file has downloaded, open it and save it in a location of your choice.

To process the prepopulated bulk share valuation spreadsheet with the ShareMaestro software, you should:

1. Click on the Bulk Upload button on the ShareMaestro share valuation screen.

2. Select and open the share data file from the window which appears.

3. In the My Documents window which appears, check that you have selected the correct file and then click on the Process File button.

4. The bulk valuation will then proceed and you can view the progress in the bottom progress bar.

5. When the bulk valuation has completed, the share valuation screen will return with all the valued shares indexed individually in the left-hand Bulk Upload window. Each valuation ID consists of the EPIC followed by the valuation date from the data file.

6. You should now review and, if necessary, edit the valuations.

You can edit individual valuations in ShareMaestro by clicking on the appropriate valuation ID (share EPIC plus date) in the left-hand Bulk Upload share ID window. The valuation screen will appear and you should follow the procedures described in the section EDITING VALUATIONS AND DUPLICATE VALUATIONS.

Updating individual share valuations between the valuation dates of the weekly prepopulated FTSE All-Share spreadsheets

There will normally be a week between these valuation dates. The Current Intrinsic Share value is unlikely to change much during this period unless there has been major company news, an announcement of results or a significant change in market or economic circumstances. However the Value as a % of Current Price will change according to changes in the share price.

LOADING CUSTOMISED BULK VALUATION SHARE DATA VIA SHARESCRIPT

This is an automated process to download share-specific data for selected shares onto a ShareMaestro bulk share valuation spreadsheet. It is available to users of ShareScope Plus and ShareScope Pro. The instructions below assume a knowledge of the ShareScope functionality.

Preparing your system for the ShareScript loading routine.

You only need to perform this operation once:

1. Download the ShareMaestro ShareScript file from the Resource Centre of the ShareMaestro website (www.sharemaestro.co.uk). It is labelled ShareMaestro.ss. Save it to a convenient location such as Desktop.

2. Copy the script to your ShareScope/ShareScript directory. Please note that this ShareScipt file must be located in the main ShareScript directory and not in a sub-directory.

Creating a file of share data from ShareScope via ShareScript.

1. Create and save a ShareScope portfolio of the shares you wish to value .You can create a portfolio of selected shares or of all the shares in indices such as the FTSE 100, FTSE250 and the FTSE All-Share.

2. Open the ShareScript console via the View menu.
3. In the command box (at the bottom) of the console, type (or copy and paste using CTRL-V):

```
load("ShareMaestro.ss"); ShareMaestro.ExportData();
```

4. Press Enter and an "Export to ShareMaestro" box will appear.

5. Select the portfolio for which you wish to export the data and press OK.

6. The output file will be labelled ShareMaestro.csv and will be stored in the ShareScope\ShareScript\Output directory.

7. Locate this file and *save it as an Excel file* under the name and directory of your choice.

You now have the share data to populate the ShareMaestro bulk valuation spreadsheet.

Populating the "ShareMaestro Bulk Share Valuation. ShareScope Data via ShareScript" spreadsheet.

1. Download the spreadsheet entitled "ShareMaestro Bulk Share Valuation Template. ShareScope Data via ShareScript" from the Resource Centre of the ShareMaestro website and save it in a location of your choice.

2. Open this spreadsheet as Read Only. For subsequent valuations, always use the original spreadsheet and open as Read only to prevent any data contamination from previous valuations. Enter the common static data (the same for each share in the valuation) – in cells B24 to B38. The sources for this data are covered earlier in this manual. This static data consists of:

    - Factual data, which is the same as you would complete for an individual share valuation (Valuation Date, FTSE 100 Dividend Yield %, Inflation Factors 1 and 2 and the % Redemption Yield on 5-year Gilts).

    - Two judgement-based factors:

        - *The default real dividend growth rate % p.a.*
        - *Target dividend cover.*

3. Import the share data from the ShareScope Excel data file which you created in the previous section:

    - Select cell A63. Via Import Data/ Import External Data/Import Data, locate the ShareScope data file which you created in the previous section. This must be an Excel file.

- A Select Table box will appear. Click OK.
- An Import Data box will appear. Check that A63 appears under the Existing worksheet button and click OK.
- The spreadsheet will be populated with the imported data. Save the spreadsheet as a Copy and close the worksheet. You will not be able to save onto the original “ShareMaestro Bulk Share Valuation Template. ShareScope Data via ShareScript” as it is secured against modification.

4. Go to the section Running the bulk share valuation from the spreadsheet.

Notes on the calculations made from running the “ShareMaestro Bulk Share Valuation. ShareScope Data via ShareScript” spreadsheet.

1. If there is no dividend projection for year 3, the year 3 dividend is calculated by applying the year 2 projected dividend growth rate to the year 2 dividend.
2. If there is no projection for year 3 dividend cover, year 2 dividend cover is used as the latest available dividend cover projection.
3. If key data is missing from the data import, or if the latest/ future dividends are 0, the share will automatically be excluded from the bulk share valuation.
4. On rare occasions, Excel cannot calculate a compound growth rate from the range of numbers supplied. If so, that share will be automatically excluded from the bulk valuation.
5. The Risk Premium is calculated from the beta of the share price in the same way as described in the individual share valuation section. The beta for the ShareScript download is based on 250 trading days. The main ShareScope beta is based on a much longer period.
6. You can manually override any of the share data values in columns H to P to test different assumptions.

Differences from the valuations produced using ShareScript Data.

- The beta value is ShareScope’s beta value based on the price performance over several years rather than over the last year.

VIEWING AND PRODUCING REPORTS FOR SHAREMAESTRO VALUATIONS

1. You can view an individual share valuation by selecting the share valuation ID in the Bulk Upload window.

2. You can generate an Excel report for all the share valuations in the Bulk Valuation window by clicking on the Report Bulk Valuations button. This will give you access to the standard Excel facilities such as Printing and Data Sorting. So, for example, you can sort the report in order of Value as % of Current share Price, or analyze sector performance.

3. You can produce an Excel report of a single valuation by selecting the valuation ID in the Bulk Upload Share ID window and clicking on Report Current Valuation.

EDITING VALUATIONS AND DUPLICATE VALUATIONS

1. You can edit any share in the bulk valuation run by selecting its ID in the Bulk Valuation window, clicking on the Edit button, changing the input field(s) you wish to change and Clicking on Calculate to see the revised valuation.

2. If you wish to save the revised valuation, Click on the Save button (toggled from the Edit button). A Duplicate Valuation screen will appear asking whether you wish to overwrite the existing valuation or add the valuation as a new valuation.

3. If you click on Add as New, the new valuation will appear in the top Share ID window, with a suffix (001 etc) added to the original share ID. The original valuation will remain in the Bulk Valuation window.

4. If you click on Overwrite, the original valuation will disappear from the Bulk Valuation window and the new valuation will appear in the top Share ID window, under the original share ID (without the suffix).

5. If you process a bulk upload of shares with the same share IDs and valuation data as a previous bulk upload for which the valuations IDs remain in the Bulk Upload window, a Duplicate Valuation screen will appear. If you choose Add as New, all the new valuations will appear in the Bulk Valuation window (with a suffix 001 etc.) in addition to the original valuations. If you choose Overwrite, all the new valuations will appear in the Bulk Upload window and the original valuations will be deleted.

DELETING BULK VALUATIONS

We recommend that you produce and Excel report of the results of any bulk valuation run which you wish to keep. You should then bulk valuations from the bulk share valuation window in the Share module of the ShareMaestro software to prevent slow running of future bulk valuations.

1. To delete all the valuations in the Bulk Valuation window, select all the valuations using standard Windows selection procedures: - select the first valuation, scroll down to the last valuation, press the shift key and click on the last valuation. *After several seconds delay,* all the shares will be highlighted in blue.

2. Click on the Delete button and the Delete window will appear. Click on Delete again and the valuations will be deleted.

3. To delete single valuations, or several valuations selected together (using standard Windows selection techniques), use the same procedure.

BE YOUR OWN FUND MANAGER AND TRANSFORM YOUR INVESTMENT PERFORMANCE.

When you invest in a managed investment fund (e.g. unit trust or OEIC), you do not know how the investments in the fund are going to perform. In fact most funds underperform their benchmark index. Some funds sparkle for a few years (which are highlighted in their advertising) but they then fizzle out. Hardly any deliver consistent, long-term, market-beating performance.

What is certain, however, is that the costs and charges levied by the fund will substantially erode your long-term savings. The impact of fund management fees and charges will typically halve the value of your savings over 40 years compared with being your own fund manager. In many instances the impact of fund manager costs will be much greater.

ShareMaestro is the ideal tool for managing your own UK funds and avoiding high fund management costs. You can use any of the investment strategies described earlier in this manual. You have the opportunity to transform your investment performance in three ways:

- Avoiding high fund management charges
- Outperforming the market, often by a wide margin
- Increasing your chances of avoiding market crashes

APPENDIX 1. INFORMATION SOURCES

DATA SOURCES FOR SINGLE VALUATIONS.

The use of these sources covered in more detail elsewhere in this manual. These sources are free although you may need to register with the website to obtain the information. We suggest that you bookmark the web addresses for ease of use.

FSTE 100 valuation

http://markets.ft.com/ft/markets/researchArchive.asp.

From the Equities category select the FTSE Actuaries Share Indices – UK series report. This report gives:

- FTSE 100 price
- FTSE 100 net dividend % yield
- Sector yields (useful for share valuations)

Select the Bonds and Rates category and the FTSE UK Gilts Indices report. This report gives:

- Redemption yield % p.a. on 5-year gilts

www.bankofengland.co.uk/statistics/yieldcurve/index.htm

- This site is the source of inflation factors 1 and 2 (inflation factors 3 and 4 are reserved for possible future use).

Click on the spreadsheet entitled “implied inflation (government liability)” to download the data.

Share valuation

For a single share valuation you need the above FTSE 100 sources plus:

www.digitallook.com/dlmedia/investing

Via “performance tables” on this site you can find or derive the information required to populate the remaining share valuation input fields. You need to consult the Share Valuation section of this manual on how to use the information:

- Current share price
- Current share net dividend % yield
- Risk Premium %
- Real dividend growth rate % p.a.

BACKGROUND INFORMATION AND ANALYSIS ON UK COMPANIES

There are numerous sources. Amongst the better known are:

- The Financial Times
- The Investors Chronicle
- ShareScope
- Shares Magazine
- The daily financial pages of the UK broadsheet newspapers

All these publications have on-line versions. Company news can also be found via the Digital Look and ShareScope services mentioned above.

APPENDIX 2. SHAREMAESTRO TERMS AND CONDITIONS

The ShareMaestro software prompts you to accept the ShareMaestro terms and conditions before you can use ShareMaestro. By opening and/or downloading the weekly bulk share valuation spreadsheet from the ShareMaestro website you are also accepting these terms and conditions. The latest terms and conditions are available from the ShareMaestro website.

"ShareMaestro" means any part of the ShareMaestro software, system and weekly valuation spreadsheet, including without limit its components and associated documentation such as the ShareMaestro User Manual.

To use ShareMaestro you must accept these Terms and Conditions, which constitute a legally binding contract. Do not use ShareMaestro if you cannot accept these Terms and Conditions. It is your responsibility to verify that you are legally entitled to use ShareMaestro in the jurisdiction to which you are subject.

The ShareMaestro licence entitles you only to personal use of ShareMaestro and does not entitle you to use ShareMaestro in any professional or advisory capacity. The ShareMaestro licence does not entitle you to use ShareMaestro in any trustee or fiduciary capacity nor to use ShareMaestro in any way on behalf of other individuals or organisations. ShareMaestro is designed for use only by individual private investors who understand the concepts and terminology of investment in equities and stock markets. You may not transfer your ShareMaestro licence to other users. By using ShareMaestro you warrant that you comply with all the terms and conditions of the ShareMaestro licence.

You should read the ShareMaestro User Manual fully before using ShareMaestro. The latest version of the User Manual is available from the ShareMaestro website at www.sharemaestro.co.uk/Resource-Centre.shtml . It is your responsibility to satisfy yourself that ShareMaestro is suitable for the purposes for which you use it and any representation, whether express or implied, about ShareMaestro and its performance is excluded.

You will not use ShareMaestro for illegal purposes nor to bring into disrepute either ShareMaestro Limited or its employees, agents and authorised representatives.

The ShareMaestro system is protected by copyright and any publication, copying or distribution of all or part of the ShareMaestro system, including without limit ShareMaestro valuations and the User Manual, requires the prior written approval of ShareMaestro Limited.

ShareMaestro is designed to provide intrinsic valuations and other related information only for the FTSE 100 index or for the ordinary shares of UK companies within the FTSE All-Share Index, excluding investment companies and investment trusts and equity investment instruments. The individual shares must be priced in the UK stock market in the £ Sterling currency and have paid a dividend in the financial year prior to the date of the ShareMaestro valuation. ShareMaestro is not suitable for AIM shares nor for collective investments such as unit trusts, investment trusts and OEICs.

ShareMaestro has been developed to cover positive UK inflation rates (using the Retail Price Index –All Items) of up to 10.5% p.a. ShareMaestro should not be used when the actual or projected inflation rates fall outside this range. The projected investment growth figures (1 and 2) produced by ShareMaestro software are based on the UK personal basic and higher income tax rates respectively which were current at the date of the software version release.

These projected growth figures exclude share dealing costs and any capital gains tax or other taxes payable. You can customise the new spreadsheet version of ShareMaestro with your own personal tax rates. The current intrinsic valuation of the FTSE 100 or individual share is based on a 5-year investment period. The weekly bulk share valuation file will normally be available by noon (UK time) on the Saturday following the end of the trading week but this timing is not guaranteed. Planned variations to this timing will be published on the website page from which the file is downloaded. Unplanned variations may be caused by telecommunication or third-party problems outside the control of ShareMaestro Limited.

Investment in equities and stock markets involves risk. Past performance is not necessarily a guide to future performance. Stock markets are volatile and can be driven to extremes by fear and greed. ShareMaestro valuations are dependent on the variable data which is input – both actual market data and the judgement-based factors. ShareMaestro Limited accepts no liability for any inaccuracies in the information sources which are used to populate the input fields of ShareMaestro. The ShareMaestro valuations will change according to changes in any of the input values, including, for example, changes in the market conditions and changes in the assumptions about the prospects of dividend growth for the FTSE 100 and for individual companies. The ShareMaestro valuations do not constitute any form of investment advice from ShareMaestro Limited. Your specific needs, investment objectives and financial situation need to be taken into account before making investment decisions. You are strongly recommended to consult a qualified financial planner or investment advisor before acting on any information provided by ShareMaestro.

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The terms and conditions of this agreement will be construed in accordance with English law and will be subject to the exclusive jurisdiction of the English courts.

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ShareMaestro Limited reserves the right to terminate the ShareMaestro licence and access of any client who breaches these terms and conditions.

APPENDIX 3. SHAREMAESTRO SUPPORT

Communication with ShareMaestro is principally by email. If we need to communicate with you, we will use the email address which you supplied at the time of purchase, unless you have advised us of a change. If you need to communicate with us, we do not want you to be kept on-hold for lengthy periods on a premium-rate telephone help-line. If you have a customer service or product query, please contact service@sharemaestro.co.uk. We aim to resolve your query as soon as possible. In the unlikely event that we cannot resolve your query by email, we will request your contact telephone number and call you at our expense.

If you would like us to call you, please email your telephone number (UK landlines only), the best times to call you and the subject of your query. Please note that we cannot provide investment advice.

Our business address is ShareMaestro Limited, Hatchetts, Westerham Road, Limpsfield, Surrey, RH8 0SW. It is recommended that, for expedited query resolution, you use email rather than post.